

**SUPPLEMENT TO
OFFICIAL STATEMENT DATED JULY 29, 2009**

relating to

\$31,625,000

**WESTERN RIVERSIDE WATER AND WASTEWATER FINANCING AUTHORITY
REVENUE BONDS, SERIES 2009
(EASTERN MUNICIPAL WATER DISTRICT
IMPROVEMENT DISTRICTS
GENERAL OBLIGATION BOND FINANCING)**

PLEASE BE ADVISED that the above-referenced Official Statement has been supplemented as follows:

The section encaptioned “BOND INSURANCE” is hereby deleted in its entirety and replaced with the following:

BOND INSURANCE

The Insurance Policy

Concurrently with the issuance of the Bonds, Assured Guaranty Corp. (“Assured Guaranty” or the “Insurer”) will issue its financial guaranty insurance policy (the “Policy”) for the Bonds. The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

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

The Insurer

Assured Guaranty is a Maryland-domiciled insurance company regulated by the Maryland Insurance Administration and licensed to conduct financial guaranty insurance business in all fifty states of the United States, the District of Columbia and Puerto Rico. Assured Guaranty commenced operations in 1988. Assured Guaranty is a wholly owned, indirect subsidiary of Assured Guaranty Ltd. (“AGL”), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol “AGO.” AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, structured finance and mortgage markets. Neither AGL nor any of its shareholders is obligated to pay any debts of Assured Guaranty or any claims under any insurance policy issued by Assured Guaranty.

Assured Guaranty’s financial strength is rated “AAA” (negative outlook) by Standard & Poor’s, a division of The McGraw-Hill Companies, Inc. (“S&P”), “Aa2” (on review for possible downgrade) by Moody’s Investors Service, Inc. (“Moody’s”) and “AA” (ratings watch negative) by Fitch, Inc. (“Fitch”). Each rating of Assured Guaranty should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies. Any downward

revision or withdrawal of any of the above ratings may have an adverse effect on the market price of any security guaranteed by Assured Guaranty. Assured Guaranty does not guaranty the market price of the securities it guarantees, nor does it guaranty that the ratings on such securities will not be revised or withdrawn.

Recent Developments

Ratings. On July 1, 2009, S&P published a Research Update in which it affirmed its “AAA” counterparty credit and financial strength ratings on Assured Guaranty. At the same time, S&P revised its outlook on Assured Guaranty to negative from stable. Reference is made to the Research Update, a copy of which is available at www.standardandpoors.com, for the complete text of S&P’s comments.

On May 20, 2009, Moody’s issued a press release stating that it had placed the “Aa2” insurance financial strength rating of Assured Guaranty on review for possible downgrade. Subsequently, in an announcement dated July 24, 2009 entitled “Moody’s Comments on Assured’s Announcement to Guarantee and Delist FSA Debt”, Moody’s announced that it expects to conclude its review by mid-August 2009. Reference is made to the press release and the announcement, copies of which are available at www.moody.com, for the complete text of Moody’s comments.

In a press release dated August 10, 2009, Fitch revised its outlook on Assured Guaranty to negative from evolving. Reference is made to the press release, a copy of which is available at www.fitchratings.com, for the complete text of Fitch’s comments.

There can be no assurance as to the outcome of Moody’s review, or as to the further action that Fitch or S&P may take with respect to Assured Guaranty.

For more information regarding Assured Guaranty’s financial strength ratings and the risks relating thereto, see AGL’s Annual Report on Form 10-K for the fiscal year ended December 31, 2008, which was filed by AGL with the Securities and Exchange Commission (“SEC”) on February 26, 2009, AGL’s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2009, which was filed by AGL with the SEC on May 11, 2009, and AGL’s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2009, which was filed by AGL with the SEC on August 10, 2009.

Acquisition of FSA. On July 1, 2009, AGL acquired the financial guaranty operations of Financial Security Assurance Holdings Ltd. (“FSA”), the parent of financial guaranty insurance company Financial Security Assurance Inc. For more information regarding the acquisition by AGL of FSA, see Item 1.01 of the Current Report on Form 8-K filed by AGL with the SEC on July 8, 2009.

Capitalization of Assured Guaranty Corp.

As of March 31, 2009, Assured Guaranty had total admitted assets of \$1,926,329,505 (unaudited), total liabilities of \$1,570,615,119 (unaudited), total surplus of \$355,714,386 (unaudited) and total statutory capital (surplus plus contingency reserves) of \$1,109,717,908 (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Incorporation of Certain Documents by Reference

The portions of the following documents relating to Assured Guaranty are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- (1) the Annual Report on Form 10-K of AGL for the fiscal year ended December 31, 2008 (which was filed by AGL with the SEC on February 26, 2009);
- (2) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2009 (which was filed by AGL with the SEC on May 11, 2009);
- (3) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2009 (which was filed by AGL with the SEC on August 10, 2009); and
- (4) the Current Reports on Form 8-K filed by AGL with the SEC relating to the periods following the fiscal year ended December 31, 2008.

All consolidated financial statements of Assured Guaranty and all other information relating to Assured Guaranty included in documents filed by AGL with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, subsequent to the date of this Official Statement and prior to the termination of the offering of the Bonds shall be deemed to be incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such consolidated financial statements.

Any statement contained in a document incorporated herein by reference or contained herein under the heading “BOND INSURANCE — The Insurer” shall be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any subsequently filed document which is incorporated by reference herein also modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

Copies of the consolidated financial statements of Assured Guaranty incorporated by reference herein and of the statutory financial statements filed by Assured Guaranty with the Maryland Insurance Administration are available upon request by contacting Assured Guaranty at 1325 Avenue of the Americas, New York, New York 10019 or by calling Assured Guaranty at (212) 974-0100. In addition, the information regarding Assured Guaranty that is incorporated by reference in this Official Statement that has been filed by AGL with the SEC is available to the public over the Internet at the SEC’s web site at <http://www.sec.gov> and at AGL’s web site at <http://www.assuredguaranty.com>, from the SEC’s Public Reference Room at 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549, and at the office of the New York Stock Exchange at 20 Broad Street, New York, New York 10005.

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

The date of this Supplement is August 11, 2009.

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California ("Bond Counsel"), under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest on the Bonds as described herein is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest on the Bonds is exempt from State of California personal income tax. See "TAX MATTERS" herein.

\$31,625,000

**WESTERN RIVERSIDE WATER AND WASTEWATER FINANCING AUTHORITY
REVENUE BONDS, SERIES 2009
(EASTERN MUNICIPAL WATER DISTRICT
IMPROVEMENT DISTRICTS
GENERAL OBLIGATION BOND FINANCING)**

Dated: Date of Delivery**Due: September 1, as shown on the inside cover page**

The Bonds are being issued pursuant to the Marks Roos Local Bond Pooling Act of 1985, as amended, a resolution duly adopted on July 15, 2009 by the Board of Directors of the Western Riverside Water and Wastewater Financing Authority (the "Authority") and an Indenture of Trust, dated as of July 1, 2009 (the "Indenture"), by and between the Authority and U.S. Bank National Association, Los Angeles, California, as trustee (the "Trustee"). The Bonds are being issued by the Authority to purchase eleven separate issues of general obligation bonds issued by Eastern Municipal Water District (the "Water District") on behalf of the Improvement Districts (as defined below) (individually, an "Improvement District Bond," and collectively, the "Improvement District Bonds"). The Improvement District Bonds are being issued pursuant to Division 20 of the California Water Code, Chapter 3, Part 1, Division 2, Title 5 of the California Government Code and eleven separate resolutions duly adopted on July 15, 2009 (the "Improvement District Resolutions") by the Board of Directors of the Water District on behalf of the Improvement Districts (as defined below). The proceeds of the Improvement District Bonds will be used by the Water District (i) to finance certain water and/or sewer facilities for some or all of Improvement Districts Nos. 21, 23, U-4, U-6, U-9, U-15, U-17, U-20, U-22, U-35 and U-36 (individually, an "Improvement District," and collectively, the "Improvement Districts") and (ii) to pay certain expenses incurred in connection with the issuance of the Bonds. A more detailed description of the use of proceeds of the Bonds and the Improvement District Bonds is set forth herein under the captions "AUTHORITY SOURCES AND USES OF FUNDS" and "IMPROVEMENT DISTRICTS SOURCES AND USES OF FUNDS" herein.

Interest on the Bonds is payable semiannually on March 1 and September 1 of each year, commencing on March 1, 2010. The Bonds will be issued in fully registered form without coupons. The Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Individual purchases of Bonds will be made in book entry form only in the minimum denomination of \$5,000 or any integral multiple thereof. Purchasers of the Bonds will not receive certificates representing their interest in the Bonds. The principal of and interest on each Bond will be payable to DTC, which will in turn remit such principal and interest to DTC Participants, which will in turn remit such principal and interest to the Indirect DTC Participants or the Beneficial Owners of the Bonds, as described herein.

The Bonds will mature on September 1 in the years and in the amounts as shown in the Maturity Schedule set forth on the inside cover hereof. The Bonds are subject to optional and mandatory redemption as discussed herein. See "THE BONDS — Redemption" herein.

The Bonds are limited obligations of the Authority payable solely from (i) all amounts derived from or with respect to the Improvement District Bonds, including, but not limited to, all payments of principal thereof and interest thereon, and (ii) investment income with respect to any moneys held by the Trustee in the funds and accounts (except the rebate fund) established under the Indenture. Payments of principal of and interest on the Improvement District Bonds are designed to be sufficient in time and amount to pay the principal of and interest on the Bonds as they become due and payable. Each Improvement District Bond is a general obligation bond of the Water District for a particular Improvement District and is payable from annual *ad valorem* taxes levied only upon taxable property within that particular Improvement District. As additional security for the repayment of the Improvement District Bonds, the Water District has covenanted in each Improvement District Resolution that in the event that sufficient funds are not available to pay principal of and interest on the applicable Improvement District Bonds based upon a delinquency of *ad valorem* taxes, the Water District shall pay the principal of and interest on such Bonds from any legally available money of the Water District (including cash reserves and money available after the payment of maintenance and operation expenses and the payment of any debt service). The Improvement District Bonds are several (and not joint) obligations of the Improvement Districts. An event of default with respect to the Improvement District Bonds of a particular Improvement District will not result in an event of default with respect to the Improvement District Bonds of any other Improvement District. See the caption "SECURITY FOR AND SOURCES OF PAYMENT OF THE BONDS" herein.

The Board of Directors of the Water District has the power and is obligated to levy and collect annual *ad valorem* taxes upon taxable property within a particular Improvement District to the extent necessary to pay debt service on that Improvement District's Improvement District Bond. The taxable property in each Improvement District is subject to *ad valorem* taxes for such payments due on its Improvement District Bonds, without limitation as to rate or amount. The Bonds are payable from the principal, premium, if any, and interest on the Improvement District Bonds.

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a financial guaranty insurance policy to be issued concurrently with the delivery of the Bonds by Assured Guaranty Corp. See the caption "BOND INSURANCE" herein.

**ASSURED
GUARANTY**

See Inside Cover for Maturity Schedule

This cover page contains information for reference only. It is not a summary of this issue. Investors must read the entire Official Statement in considering the investment quality of the Bonds.

The Bonds are offered when, as and if issued and received by the Underwriter, subject to the approval of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, and to certain other conditions. Certain legal matters will be passed upon for the Authority and the Water District by their General Counsel, Redwine & Sherrill, Riverside, California, and for the Underwriter by its counsel, Hawkins Delafield & Wood LLP. It is anticipated that the Bonds will be available for delivery to The Depository Trust Company or its agent on or about August 12, 2009.

PiperJaffray®

MATURITY SCHEDULE
\$31,625,000
Western Riverside Water and Wastewater Financing Authority
Revenue Bonds, Series 2009
(Eastern Municipal Water District
Improvement Districts
General Obligation Bond Financing)

\$14,940,000 Serial Bonds

<u>Maturity Date</u> <u>(September 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price</u>	<u>CUSIP No.</u> [†]
2010	\$1,630,000	3.000%	101.961	95942TCF2
2011	1,755,000	3.000	102.979	95942TCG0
2012	1,810,000	3.000	103.578	95942TCH8
2013	865,000	3.000	102.967	95942TCJ4
2013	1,000,000	5.000	110.675	95942TCZ8
2014	1,940,000	4.000	106.246	95942TCK1
2015	475,000	5.000	110.701	95942TCL9
2016	500,000	5.000	110.286	95942TCM7
2017	525,000	5.000	109.416	95942TCN5
2018	550,000	5.000	108.240	95942TCP0
2019	580,000	5.000	107.096	95942TCQ8
2020	605,000	4.250	99.127	95942TCR6
2021	635,000	4.375	98.753	95942TCS4
2022	660,000	4.500	98.542	95942TCT2
2023	690,000	4.625	98.625	95942TCU9
2024	720,000	4.750	98.832	95942TCV7

Term Bonds

\$4,195,000 5.125% Term Bonds Due September 1, 2029 – Price: 98.702 CUSIP No. [†] 95942TCW5
\$5,420,000 5.500% Term Bonds Due September 1, 2034 - Price: 99.324 CUSIP No. [†] 95942TCX3
\$7,070,000 5.625% Term Bonds Due September 1, 2039 - Price: 99.350 CUSIP No. [†] 95942TCY1

[†] CUSIP® is a registered trademark of the American Bankers Association. Copyright© 2009 Standard & Poor's, a Division of the McGraw Hill Companies, Inc. CUSIP® data herein is provided by Standard & Poor's CUSIP Service Bureau. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Service Bureau. CUSIP® numbers are provided for convenience of reference only. Neither the Water District, the Authority nor the Underwriter takes any responsibility for the accuracy of such numbers.

**WESTERN RIVERSIDE WATER AND WASTEWATER FINANCING AUTHORITY
Riverside County, California**

BOARD OF DIRECTORS

*Ronald W. Sullivan, Chairman
Ben R. Drake, Vice Chairman
Stephen J. Corona, Director
Joseph J. Kuebler, Director*

AUTHORITY STAFF

*Anthony J. Pack, Executive Director
Matthew G. Stone, Deputy Executive Director
Charles E. Rathbone Jr., Treasurer
Rosemarie V. Howell, Board Secretary
Redwine & Sherrill, Authority Counsel*

**EASTERN MUNICIPAL WATER DISTRICT
Riverside County, California**

BOARD OF DIRECTORS

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

DISTRICT STAFF

*Anthony J. Pack, General Manager
Parameshwaran Ravishanker, Deputy General Manager
Charles J. Bachmann, Assistant General Manager, Engineering
Michael Luker, Assistant General Manager, Operations and Maintenance
Bruce Mortazavi, Assistant General Manager, Resource Development
Charles E. Rathbone Jr., Chief Financial Officer
Rosemarie V. Howell, Board Secretary
Redwine & Sherrill, District Counsel*

PROFESSIONAL SERVICES

Bond Counsel and Disclosure Counsel

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

Financial Advisor

Fieldman, Rolapp & Associates, Inc.
Irvine, California

Trustee, Paying Agent and Dissemination Agent

U.S. Bank National Association
Los Angeles, California

Except where otherwise indicated, all information contained in this Official Statement has been provided by the Western Riverside Water and Wastewater Financing Authority and Eastern Municipal Water District. While the Water District maintains an internet website for various purposes, none of the information on that website is intended to assist investors in making any investment decision or to provide any continuing information with respect to the Bonds or any other bonds or obligations of the Water District. No dealer, broker, salesperson or other person has been authorized by the Authority, the Water District, the Trustee or the Underwriter to give any information or to make any representations in connection with the offer or sale of the Bonds other than those contained herein; and, if given or made, such other information or representations must not be relied upon as having been authorized by the Authority, the Water District, the Trustee or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

The information set forth herein which has been obtained from third party sources is believed to be reliable but is not guaranteed as to accuracy or completeness by the Authority or the Water District. This Official Statement is not to be construed as a contract with the purchasers or Owners of the Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact.

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

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

The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority, the Water District or any other parties described herein since the date hereof. All summaries of the Indenture or other documents are made subject to the provisions of such documents respectively and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the Water District for further information in connection therewith.

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

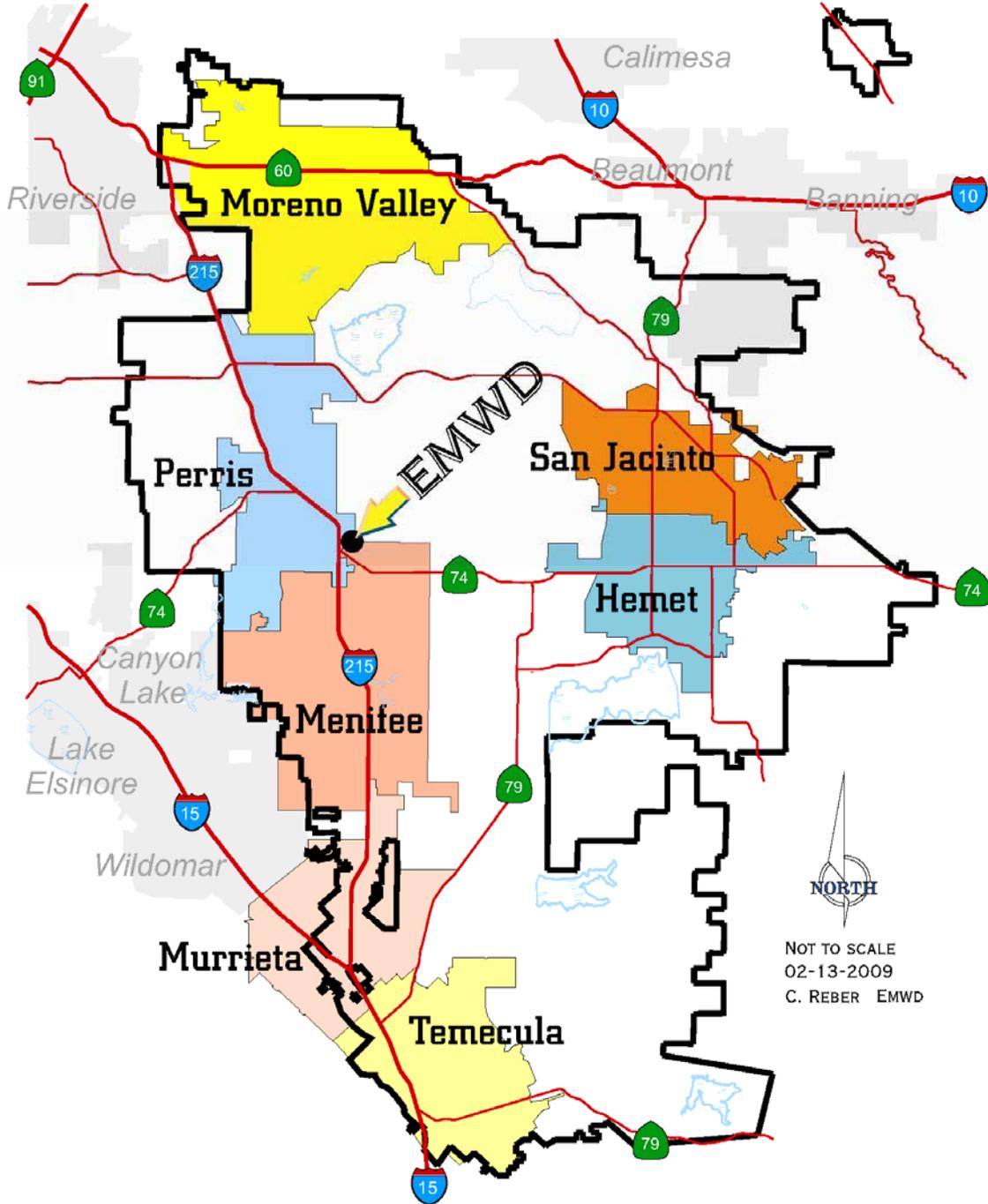
The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Neither the Authority nor the Water District plans to issue any updates or revisions to the forward-looking statements set forth in this Official Statement. The Water District is obligated to provide continuing disclosure of certain historical information only. See the caption “CONTINUING DISCLOSURE” herein.

Assured Guaranty makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, Assured Guaranty has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding Assured Guaranty supplied by Assured Guaranty and presented under the heading “BOND INSURANCE” and Appendix I — “SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY.”

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

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

EASTERN MUNICIPAL WATER DISTRICT SERVICE AREA AND INCORPORATED CITIES



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TABLE OF CONTENTS

Page

INTRODUCTION 1
 General..... 1
 The Improvement District Bonds 1
 The Authority..... 2
 The Water District 2
 Description of the Bonds 2
 Tax Matters..... 2
 Professionals Involved in the Offering 3
 Security and Sources of Payment 3
 Continuing Disclosure 3
 Bond Insurance 3
 Other Information 3
 Update of Certain Information Since the Date of the Preliminary Official Statement 4

THE BONDS 4
 Authority for Issuance and Purpose..... 4
 Description of the Bonds 4
 Book-Entry Only System..... 5
 Redemption..... 5
 Transfer and Exchange of Bonds..... 7

IMPROVEMENT DISTRICT BONDS 8
 Authority for Issuance and Purpose..... 8
 Issuance of Additional Bonds 9

SECURITY FOR AND SOURCES OF PAYMENT OF THE BONDS 10
 General..... 10
 Ad Valorem Property Taxes 10
 Flow of Funds..... 10

AUTHORITY SOURCES AND USES OF FUNDS..... 12

IMPROVEMENT DISTRICTS SOURCES AND USES OF FUNDS..... 12

AUTHORITY BOND PAYMENT SCHEDULE..... 13

IMPROVEMENT DISTRICTS BOND PAYMENT SCHEDULE..... 14

CONTINUING DISCLOSURE..... 19

WESTERN RIVERSIDE WATER AND WASTEWATER FINANCING AUTHORITY 19

BOND INSURANCE 20
 The Insurance Policy 20
 The Insurer..... 20
 Recent Developments 21
 Capitalization of Assured Guaranty Corp..... 21
 Incorporation of Certain Documents by Reference 21

GENERAL AD VALOREM PROPERTY TAX INFORMATION 22
 Ad Valorem Property Taxation..... 22
 Tax Levies, Collections and Delinquencies..... 24

TABLE OF CONTENTS
(continued)

	<u>Page</u>
IMPROVEMENT DISTRICTS	24
CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES.....	24
Article XIII A	25
Article XIII B.....	25
Articles XIII C and XIII D.....	26
Proposition 46.....	27
Proposition 62.....	27
Proposition 1A.....	28
Other Initiatives	28
TAX MATTERS.....	28
LITIGATION	30
FINANCIAL STATEMENTS.....	30
RATINGS	30
UNDERWRITING	31
GENERAL.....	31
APPENDIX A IMPROVEMENT DISTRICTS	A-1
APPENDIX B EASTERN MUNICIPAL WATER DISTRICT	B-1
APPENDIX C EASTERN MUNICIPAL WATER DISTRICT’S AUDITED FINANCIAL STATEMENTS FOR FISCAL YEARS ENDED JUNE 30, 2008 AND JUNE 30, 2007.....	C-1
APPENDIX D DEMOGRAPHIC INFORMATION REGARDING THE COUNTY OF RIVERSIDE AND THE WATER DISTRICT’S SERVICE AREA.....	D-1
APPENDIX E FORM OF BOND COUNSEL OPINION	E-1
APPENDIX F SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE IMPROVEMENT DISTRICT RESOLUTIONS	F-1
APPENDIX G CONTINUING DISCLOSURE AGREEMENT	G-1
APPENDIX H BOOK ENTRY ONLY SYSTEM	H-1
APPENDIX I SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY	I-1

\$31,625,000
WESTERN RIVERSIDE WATER AND WASTEWATER FINANCING AUTHORITY
REVENUE BONDS, SERIES 2009
(EASTERN MUNICIPAL WATER DISTRICT
IMPROVEMENT DISTRICTS
GENERAL OBLIGATION BOND FINANCING)

INTRODUCTION

This Introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the Bonds to potential investors is made only by means of the entire Official Statement.

General

The purpose of this Official Statement, which includes the cover page, Table of Contents and Appendices, is to provide information about the \$31,625,000 Western Riverside Water and Wastewater Financing Authority Revenue Bonds, Series 2009 (Eastern Municipal Water District Improvement Districts General Obligation Bond Financing) (the “Bonds”). The Bonds are being issued pursuant to Articles 1 through 4 (commencing with Section 6500) of Chapter 5 of Division 7 of Title 1 of the California Government Code (the “Joint Powers Act”), a resolution duly adopted on July 15, 2009 (the “Authority Resolution”) by the Board of Directors of the Western Riverside Water and Wastewater Financing Authority (the “Authority”) and an Indenture of Trust, dated as of July 1, 2009 (the “Indenture”), by and between the Authority and U.S. Bank National Association, Los Angeles, California, as trustee (the “Trustee”). The Bonds are being issued by the Authority to purchase certain general obligation bonds from the Eastern Municipal Water District (the “Water District”) which are being issued by the Water District for each Improvement District (as defined below) (individually, an “Improvement District Bond” and collectively, the “Improvement District Bonds”). See “THE BONDS — Authority for Issuance and Purpose” herein.

The Improvement District Bonds

The Improvement District Bonds are being issued pursuant to the State of California Water Code and Government Code and resolutions duly adopted on July 15, 2009 (the “Improvement District Resolutions”) by the Board of Directors of the Water District. See “IMPROVEMENT DISTRICT BONDS — Authority for Issuance and Purpose” herein.

The Improvement Districts consist of the Water District’s Improvement Districts Nos. 21, 23, U-4, U-6, U-9, U-15, U-17, U-20, U-22, U-35 and U-36 (individually an “Improvement District,” and collectively, the “Improvement Districts”). The Improvement District Bonds are being issued pursuant to the Municipal Water District Law of 1911, Division 20 (commencing at Section 71000) of the Water Code of the State of California (the “Municipal Water District Law”) and the Improvement District Resolutions. See Appendix A — “IMPROVEMENT DISTRICTS” for a description of each Improvement District.

The proceeds of the Improvement District Bonds, together with other funds of the Water District, will be used by the Water District (i) to finance certain water and/or sewer system facilities of the Water District for the Improvement Districts and (ii) to pay certain expenses incurred in connection with the issuance of the Bonds. See “IMPROVEMENT DISTRICTS SOURCES AND USES OF FUNDS” herein.

The Authority

The Western Riverside Water and Wastewater Financing Authority (the “Authority”) is a public entity created for the joint exercise of common powers pursuant to a Joint Exercise of Powers Agreement, dated October 20, 2004, by and between the Water District and Rancho California Water District (“RCWD”). The Authority is an autonomous entity separate from the Water District and RCWD. The Authority is specifically granted all of the powers specified in the Joint Powers Act, including but not limited to the power to issue bonds and to sell such bonds to public or private purchasers by public or negotiated sale. The Authority is entitled to exercise powers common to its members and necessary to accomplish the purposes for which it was formed. For further information on the Authority, see “WESTERN RIVERSIDE WATER AND WASTEWATER FINANCING AUTHORITY” herein.

The Water District

The Water District is located in the County of Riverside, California (the “County”) and includes the Cities of Temecula, Murrieta, Moreno Valley, Hemet, San Jacinto and Perris as well as portions of the unincorporated area of the County. The Water District was established in 1950 and is a municipal water district formed and existing pursuant to the Municipal Water District Law. The Water District provides both water and wastewater services to the customers located within its boundaries. Although at the time of its formation the major demand for the Water District’s services was related to agriculture, domestic customers now constitute the majority of the demand for such services. The Water District encompasses nearly 555 square miles and has a current estimated population of approximately 675,000. For further information on the Water District, see Appendix B — “EASTERN MUNICIPAL WATER DISTRICT” herein.

Description of the Bonds

Form, Denomination and Registration. The Bonds will be issued in fully registered form only, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York (“DTC”), and will be available to actual purchasers of the Bonds (the “Beneficial Owners”) in the denominations set forth on the cover page hereof, under the book-entry only system maintained by DTC, only through brokers and dealers who are or act through DTC Participants as described herein. Beneficial Owners will not be entitled to receive physical delivery of the Bonds. See “THE BONDS — Book-Entry Only System” herein.

Payments. Interest on the Bonds accrues from the date of delivery of the Bonds at the rates set forth on the cover page hereof, and is payable semiannually on each March 1 and September 1, commencing March 1, 2010. The principal amount of the Bonds is payable at maturity upon surrender of the Bond for payment. See “THE BONDS — Description of the Bonds” herein.

Redemption. The Bonds are subject to optional and mandatory redemption prior to maturity. See “THE BONDS — Redemption” herein

Tax Matters

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

Professionals Involved in the Offering

U.S. Bank National Association, Los Angeles, California, is acting as Trustee, Paying Agent and Dissemination Agent and Fieldman, Rolapp & Associates, Inc. is acting as financial advisor with respect to the Bonds. Certain matters in connection with the issuance of the Bonds are subject to approval by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel and Disclosure Counsel. Certain matters will be passed on for the Authority and the Water District by their General Counsel, Redwine & Sherrill, Riverside, California, and for the Underwriter by its counsel, Hawkins Delafield & Wood LLP.

Security and Sources of Payment

The Bonds are limited obligations of the Authority payable solely from (i) all amounts derived from or with respect to the Improvement District Bonds, including, but not limited to, all payments of principal thereof and interest thereon, and (ii) investment income with respect to any moneys held by the Trustee in the funds and accounts (except the rebate fund) established under the Indenture (collectively, the “Revenues”). Payments of principal of and interest on the Improvement District Bonds are designed to be sufficient in time and amount to pay the principal of and interest on the Bonds as they become due and payable. As additional security for the repayment of each Improvement District Bond, the Water District has covenanted in each Improvement District Resolution that in the event that sufficient funds are not available to pay principal of and interest on the applicable Improvement District Bond based upon a delinquency of *ad valorem* taxes, the Water District shall pay the principal of and interest on such Improvement District Bond from any legally available money of the Water District (including cash reserves and money available after the payment of maintenance and operation expenses and the payment of any debt service). The Improvement District Bonds are several (and not joint) obligations of the Improvement Districts. See discussion under “SECURITY FOR AND SOURCES OF PAYMENT OF THE BONDS” herein.

Continuing Disclosure

The Water District has covenanted for the benefit of the holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to the Water District by not later than February 1 of each year commencing February 1, 2010 (the “Annual Report”), commencing with the Annual Report for Fiscal Year ending June 30, 2009, and to provide notices of the occurrence of certain enumerated events, if material. See “CONTINUING DISCLOSURE” herein. These covenants have been made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) promulgated under the Securities Exchange Act of 1934. The Water District has not failed to comply with the terms of its existing continuing disclosure agreements in the past five years.

Bond Insurance

Concurrently with the issuance of the Bonds, Assured Guaranty Corp. (the “Insurer”) will issue a financial guaranty insurance policy (the “Policy”) securing payment of debt service on the Bonds. See “BOND INSURANCE” and Appendix I – “SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY” for the form of Policy.

In the event the Insurer becomes obligated to make payments with respect to the Bonds, no assurance is given that such event will not adversely affect the market price of the Bonds or the marketability (liquidity) of the Bonds. See “RATINGS” herein.

Other Information

This Official Statement speaks only as of its date, and the information contained herein is subject to change.

The Water District regularly prepares a variety of reports, including audits, budgets and related documents. Any Bond Owner may obtain a copy of such reports, as available, from the Water District. Additional information regarding the Official Statement may be obtained by contacting Charles E. Rathbone Jr., Chief Financial Officer, Eastern Municipal Water District, 2270 Trumble Road, Perris, California 92572-8300, Telephone: (951) 928-3777.

Update of Certain Information Since the Date of the Preliminary Official Statement

This Official Statement includes certain changes since the date of the Preliminary Official Statement. Concurrently with the issuance of the Bonds, the Insurer will issue a Policy securing payment of debt service on the Bonds. See the caption “BOND INSURANCE” and Appendix I — “SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY” for information regarding the Insurer and the Policy. Also see the caption “RATINGS.” In connection therewith, the Authority and Water District chose to exclude Improvement District Nos. 18, U-5 and U-12 from the issuance of Improvement District Bonds. Additionally, certain changes have been made to the Indenture to accommodate the Insurer’s standard requirements with respect to the Indenture, including but not limited to rights and obligations of the Insurer under the Indenture and permitted investments thereunder. See Appendix F — “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE IMPROVEMENT DISTRICT RESOLUTIONS.” Additionally, the description of the treatment of interest on the Bonds with respect to corporations for purposes of the alternative minimum tax has been revised. See the paragraph numbered “3” in Appendix E — “FORM OF BOND COUNSEL OPINION.”

THE BONDS

Authority for Issuance and Purpose

The Bonds are being issued pursuant to the Joint Powers Act, the Authority Resolution and the Indenture. The Improvement District Bonds are being issued pursuant to the Municipal Water District Law and the Improvement District Resolutions. Proceeds of the Bonds will be used by the Authority to purchase the Improvement District Bonds from the Water District.

The Water District will deposit the net Improvement District Bond sale proceeds in the Construction Funds for the Improvement Districts to be used to finance the water and/or sewer system facilities (the “Projects”) and to pay the costs of issuing the Bonds. See “IMPROVEMENT DISTRICTS SOURCES AND USES OF FUNDS” and Appendix A — “IMPROVEMENT DISTRICTS” herein.

Description of the Bonds

The Bonds consist of an aggregate principal amount of \$31,625,000 issued in the form of fully registered bonds without coupons in the denomination of \$5,000 or any integral multiple thereof. The Bonds will be dated as of their delivery date and will mature on September 1 of each year as shown on the inside cover page hereof. Interest will be payable on March 1 and September 1 in each year, commencing March 1, 2010 (each an “Interest Payment Date”).

Interest on the Bonds will be calculated on the basis of a 360-day year comprised of twelve 30-day months and payable from the Interest Payment Date next preceding the date of authentication thereof unless (i) a Bond is authenticated on or before an Interest Payment Date and after the close of business on the 15th calendar day of the month preceding such Interest Payment Date (the “Record Date”), in which event it shall bear interest from such Interest Payment Date, (ii) a Bond is authenticated on or before the first Record Date, in which event interest thereon will be payable from the date of initial delivery, or (iii) interest on any Bond is in default as of the date of authentication thereof, in which event interest thereon shall be payable from the date to which interest has been paid in full, payable on each Interest Payment Date.

Book-Entry Only System

The Bonds will be issued as one fully registered bond without coupons for each maturity and, when issued, will be registered in the name of Cede & Co., as nominee of DTC. DTC will act as securities depository of the Bonds. Individual purchases may be made in book-entry form only, in the principal amount of \$5,000 for the Bonds and integral multiples thereof for each maturity. Purchasers will not receive certificates representing their interest in the Bonds purchased. Principal and interest will be paid to DTC, which will in turn remit such principal and interest to its participants for subsequent dispersal to the beneficial owners of the Bonds as described herein. See Appendix H—"BOOK - ENTRY ONLY SYSTEM" herein.

Redemption

Optional Redemption. The Bonds due on or before September 1, 2019 are not subject to optional call and redemption prior to their respective maturity dates. The Bonds due after September 1, 2019 are subject to redemption prior to their respective maturity dates, at the option of the Authority, from any source of available funds (except prepayments of Improvement District Bonds) in whole or in part in integral multiples of \$5,000, on any date on or after September 1, 2019 at a redemption price equal to the principal amount of the Bonds to be redeemed plus interest accrued thereon to the date of redemption, without premium.

If less than all the Bonds that are eligible to be optionally redeemed in advance of their respective maturity dates are to be redeemed at one time, the Trustee shall select Bonds to be redeemed as proportionately as possible (in integral multiples of authorized denominations) among the various maturities then subject to redemption. Notwithstanding the foregoing, the Trustee shall select Bonds for redemption from the maturity or maturities specified by the Authority if, prior to selecting Bonds for redemption, the Trustee receives a Written Certificate of the Authority directing the Trustee to call Bonds of one or more specified maturities accompanied by a report of an Independent Financial Consultant demonstrating that the remaining payments of principal of and interest on the Improvement District Bonds that will be outstanding subsequent to such redemption, together with other available Revenues, will be sufficient to pay when due the principal of and interest on the Bonds that will remain outstanding subsequent to such redemption. The Bonds to be redeemed from any particular maturity shall be selected by lot in such manner as the Trustee may determine.

Special Mandatory Redemption. The Bonds due on or before September 1, 2019 are not subject to special mandatory call and redemption prior to their respective maturity dates. The Bonds due after September 1, 2019 are subject to special mandatory redemption prior to their respective maturity dates, if the Authority or the Trustee receives an optional prepayment of Improvement District Bonds, in whole or in part, in integral multiples of \$5,000, in an aggregate amount equal to the principal amount of the Improvement District Bonds so redeemed, on any date on or after September 1, 2019 at a redemption price equal to the principal amount of the Bonds to be redeemed plus interest accrued thereon to the date of redemption, without premium.

Immediately upon its receipt of any notice from the Paying Agent for the Improvement District Bonds of the prepayment of any Improvement District Bonds, the Trustee shall mail notice of the redemption of Bonds in an aggregate principal amount equal to the principal amount of Improvement District Bonds being redeemed; and Bonds in such principal amount shall be redeemed on the date fixed for prepayment of such Improvement District Bonds.

If less than all the Bonds that are eligible to be redeemed as a result of a special mandatory redemption in advance of their respective maturity dates are to be so redeemed at one time, the Trustee shall select the Bonds to be so redeemed in the amounts and from the maturity or maturities specified by the Water District in a Written Certificate of the Water District accompanied by a report of an Independent Financial Consultant demonstrating that the remaining payments of principal of and interest on the Improvement District Bonds that will be outstanding subsequent to such redemption, together with other available Revenues, will be sufficient to pay when due the principal of and interest on the Bonds that will remain Outstanding subsequent to such

redemption. The Bonds to be redeemed from any particular maturity shall be selected by lot in such manner as the Trustee may determine.

Mandatory Sinking Fund Redemption. The Bonds due on September 1, 2029 are subject to redemption by lot on September 1, 2025 and each September 1 thereafter from mandatory sinking fund payments, at a redemption price equal to the principal amount of such Bonds to be redeemed together with interest, if any, accrued thereon to the date fixed for redemption, without premium, in the aggregate respective principal amounts and on the respective dates set forth below:

<i>Year (September 1)</i>	<i>Principal Amount</i>
2025	\$760,000
2026	795,000
2027	835,000
2028	880,000
2029 (Maturity)	925,000

The Bonds due on September 1, 2034 are subject to redemption by lot on September 1, 2030 and each September 1 thereafter from mandatory sinking fund payments, at a redemption price equal to the principal amount of such Bonds to be redeemed together with interest, if any, accrued thereon to the date fixed for redemption, without premium, in the aggregate respective principal amounts and on the respective dates set forth below:

<i>Year (September 1)</i>	<i>Principal Amount</i>
2030	\$ 970,000
2031	1,025,000
2032	1,080,000
2033	1,140,000
2034 (Maturity)	1,205,000

The Bonds due on September 1, 2039 are subject to redemption by lot on September 1, 2035 and each September 1 thereafter from mandatory sinking fund payments, at a redemption price equal to the principal amount of such Bonds to be redeemed together with interest, if any, accrued thereon to the date fixed for redemption, without premium, in the aggregate respective principal amounts and on the respective dates set forth below:

<i>Year (September 1)</i>	<i>Principal Amount</i>
2035	\$1,270,000
2036	1,340,000
2037	1,385,000
2038	1,495,000
2039 (Maturity)	1,580,000

In the event that any Term Bonds have been optionally redeemed, the remaining mandatory sinking fund payment amounts shall be reduced as proportionately as possible among the remaining Term Bonds in integral multiples of the authorized denominations of the Term Bonds.

Notice and Effect of Redemption. The Trustee, on behalf and at the expense of the Authority, shall mail (by first-class mail) notice of any redemption to the respective Owners of any Bonds designated for redemption at their respective addresses appearing on the Registration Books and to the Securities Depositories

and to one or more Information Services, at least thirty (30) but not more than sixty (60) days prior to the date fixed for redemption. Such notice shall state the date of the notice, the redemption date, the redemption place and the redemption price and shall designate the CUSIP numbers, the Bond numbers and the maturity or maturities (except in the event of redemption of all of the Bonds of such maturity or maturities in whole) of the Bonds to be redeemed, and shall require that such Bonds be then surrendered at the Office of the Trustee for redemption at the redemption price, giving notice also that further interest on such Bonds will not accrue from and after the date fixed for redemption. Neither the failure to receive any notice so mailed, nor any defect in such notice, shall affect the sufficiency of the proceedings for the redemption of the Bonds or the cessation of accrual of interest thereon from and after the date fixed for redemption.

If so directed in writing by the Water District on behalf of the Authority, any such notice of an optional redemption of Bonds shall 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, will be sufficient to pay the redemption price of, and accrued interest on, the Bonds to be redeemed, and that if such moneys shall not have been so received said notice shall be of no force and effect and the Authority shall not be required to redeem such Bonds. In the event a notice of redemption of Bonds contains such a condition and such moneys are not so received, the redemption of Bonds as described in the conditional notice of redemption shall not be made, and, within a reasonable time after the date on which such redemption was to occur, the Trustee shall give notice to the same Persons to whom the notice of redemption was given in the same manner in which the notice of redemption was given, that such moneys were not so received and that there shall be no redemption of Bonds pursuant to such notice of redemption.

Selection of Bonds for Redemption. Whenever provision is made in the Indenture for the redemption of less than all of the Bonds of a maturity, the Trustee shall select such Bonds for redemption by lot in such manner as the Trustee may determine. For purposes of such selection, all Bonds shall be deemed to be comprised of \$5,000 denominations and such separate denominations shall be treated as separate Bonds which may be separately redeemed.

Partial Redemption of Bonds. Upon surrender of any Bonds redeemed in part only, the Authority shall execute and the Trustee shall authenticate and deliver to the Owners thereof, at the expense of the Authority, a new Bond or Bonds of authorized denominations equal in aggregate principal amount to the unredeemed portion of the Bonds surrendered.

Effect of Notice of Redemption. Notice having been mailed as aforesaid, and moneys for the redemption (including the interest to the applicable date fixed for redemption and including any applicable premium) having been set aside in the Redemption Account or the Principal Account therein, as the case may be, the Bonds shall become due and payable on said date and, upon presentation and surrender thereof at the office of the Trustee, said Bonds shall be paid at the redemption price thereof, together with interest accrued and unpaid to said date.

If, on said date fixed for redemption, moneys for the redemption of all the Bonds to be redeemed, together with interest to said date, shall be held by the Trustee so as to be available therefor then, from and after said date, interest on said Bonds shall cease to accrue and become payable. All moneys held by or on behalf of the Trustee for the redemption of Bonds shall be held in trust for the account of the Owners of the Bonds to be redeemed.

Transfer and Exchange of Bonds

Any Bond may, in accordance with its terms, be transferred upon the Registration Books by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer, duly executed, in a form acceptable to the Trustee. Whenever any Bond or Bonds are surrendered for transfer, the Authority will execute and the Trustee will authenticate and will deliver a new Bond or Bonds for a like aggregate principal

amount of the same series, in any authorized denomination. The Trustee will require the Bond Owner requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer.

The Bonds may be exchanged at the office of the Trustee for a like aggregate principal amount of Bonds of the same maturity of other authorized denominations. The Authority may charge a reasonable sum for each new Bond issued upon any exchange (except in the case of any exchange of temporary Bonds for definitive Bonds and except in the case of the first exchange of any definitive Bond in the form in which it is originally issued) and the Trustee will require the payment by the Bond Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange.

So long as the book-entry system is in effect, the Bonds will be registered in the name of Cede & Co., as the nominee of The Depository Trust Company. See “— Book-Entry Only System” above.

IMPROVEMENT DISTRICT BONDS

Authority for Issuance and Purpose

The Improvement Districts consist of the Water Districts’ Improvement Districts Nos. 21, 23, U-4, U-6, U-9, U-15, U-17, U-20, U-22, U-35 and U-36. The Improvement District Bonds are being issued pursuant to the Municipal Water District Law and the Improvement District Resolutions. See Appendix A — “IMPROVEMENT DISTRICTS” for a description of each Improvement District.

The proceeds of the Improvement District Bonds, together with other funds of the Water District, will be used by the Water District (i) to finance certain water and/or sewer system facilities of the Water District for the Improvement Districts and (ii) to pay certain expenses incurred in connection with the issuance of the Bonds. See “IMPROVEMENT DISTRICTS SOURCES AND USES OF FUNDS” herein.

Each Improvement District Bond represents a general obligation of the Water District for an Improvement District and is payable from annual *ad valorem* taxes levied only on the property within that Improvement District. The Improvement District Bonds are several (and not joint) obligations of the Improvement Districts. An event of default with respect to an Improvement District Bond of a particular Improvement District will not result in an event of default with respect to the Improvement District Bonds of the other Improvement Districts. See discussion under “SECURITY FOR AND SOURCES OF PAYMENT OF THE BONDS” herein.

The Board of Directors of the Water District has the power and is obligated to levy and collect annual *ad valorem* taxes upon taxable property within each Improvement District to the extent necessary to pay that Improvement District’s Improvement District Bond. The taxable property in each Improvement District is subject to *ad valorem* taxes for payments due on its Improvement District Bonds without limitation as to rate or amount. Each Improvement District Bond is secured and payable from such annual *ad valorem* taxes and other pledged funds, as described in the section hereof entitled “SECURITY FOR AND SOURCES OF PAYMENT OF THE BONDS,” for each Improvement District. The principal amount of the Improvement District Bonds of each of the Improvement Districts is as follows:

<i>Improvement District Nos.</i>	<i>Principal Amount of Improvement District Bonds</i>
21	\$ 700,000
23	2,350,000
U-4	900,000
U-6	2,700,000
U-9	3,093,000
U-15	400,000
U-17	1,150,000
U-20	320,000
U-22	2,000,000
U-35	9,000,000
U-36	<u>9,012,000</u>
Total	\$ 31,625,000

For the debt service schedules for the Improvement Districts, see “IMPROVEMENT DISTRICTS BOND PAYMENT SCHEDULE” herein. Each of the respective Improvement District Bonds mature on different dates and is subject to different redemption provisions. The principal and interest due with respect to the Bonds are payable from Improvement District Bonds, which have different maturity schedules. Accordingly, the holder of a Bond having a later maturity date may have less diversification of security among Improvements Districts than the holder of an earlier maturing Bond.

Additional information regarding the Improvement Districts is contained in Appendix A hereto.

Issuance of Additional Bonds

The outstanding bond authorization, proposed bond issuance and remaining bond authorization for each Improvement District are as follows:

<i>Improvement District Nos.</i>	<i>Outstanding Bond Authorization</i>	<i>Bond Issuance</i>	<i>Remaining Bond Authorization</i>
21	\$ 700,000	\$ 700,000	\$ 0
23	2,350,000	2,350,000	0
U-4	900,000	900,000	0
U-6	2,700,000	2,700,000	0
U-9	4,600,000	3,093,000	1,507,000
U-15	400,000	400,000	0
U-17	1,150,000	1,150,000	0
U-20	320,000	320,000	0
U-22	11,800,000	2,000,000	9,800,000
U-35	46,200,000	9,000,000	37,200,000
U-36	<u>19,700,000</u>	<u>9,012,000</u>	<u>10,688,000</u>
Total	\$ 90,820,000	\$31,625,000	\$59,195,000

The Improvement Districts Bonds with respect to Improvement District No. U-4 and the outstanding general obligation bonds with respect to said Improvement District are payable on a parity from *ad valorem* taxes levied within Improvement District U-4 to repay such bonds. The Improvement District Bonds with respect to each of Improvement District Nos. 21, 23, U-6, U-9, U-15, U-17, U-20, U-22, U-35 and U-36 and any future general obligation bonds with respect to each of said Improvement Districts will be payable on a parity from *ad valorem* taxes levied within each of said Improvement Districts, respectively, to repay such bonds.

SECURITY FOR AND SOURCES OF PAYMENT OF THE BONDS

General

The Bonds are special revenue obligations of the Authority payable solely from (i) all amounts derived from or with respect to the Improvement District Bonds, including, but not limited to, all payments of principal thereof and interest thereon, and (ii) investment income with respect to any moneys held by the Trustee in the funds and accounts (except the rebate fund) established under the Indenture. Payments of principal of and interest on the Improvement District Bonds are designed to be sufficient in time and amount to pay the principal of and interest on the Bonds as they become due and payable. Each Improvement District Bond is a general obligation bond of the Water District for a particular Improvement District and is payable from annual *ad valorem* taxes levied only upon taxable property within that Improvement District. The taxable property in each Improvement District is subject to *ad valorem* taxes for such payments due on its Improvement District Bonds without limitation as to rate or amount. As additional security for the repayment of the Improvement District Bonds, the Water District has covenanted in each Improvement District Resolution that in the event that sufficient funds are not available to pay principal of and interest on the applicable Improvement District Bonds based upon a delinquency of *ad valorem* taxes, the Water District shall pay the principal of and interest on such Bonds from any legally available money of the Water District (including cash reserves and money available after the payment of maintenance and operation expenses and the payment of any debt service), if any. The Improvement District Bonds are several (and not joint) obligations of the Improvement Districts. An event of default with respect to the Improvement District Bonds of a particular Improvement District will not result in an event of default with respect to the Improvement District Bonds of any other Improvement District.

Ad Valorem Property Taxes

Ad valorem taxes may be levied under the Municipal Water District Law based on the assessed valuation of property. The Water District levies *ad valorem* taxes upon all taxable property within its improvement districts which are sufficient, together with other available funds, to meet debt service requirements of the improvement districts. The *ad valorem* taxes levied upon property within the improvement districts are collected by the County at the same time and in the same manner as general County taxes, and are paid by the County to the Water District. Such *ad valorem* taxes are payable by property owners in two installments on November 1 and February 1 of each fiscal year and become delinquent on December 10 and April 10 of such year. See “GENERAL AD VALOREM PROPERTY TAX INFORMATION” herein.

The portion of the 1% base property tax levy that the Water District receives from the County is not pledged to the payment of the Improvement District Bonds. See “GENERAL AD VALOREM PROPERTY TAX INFORMATION.”

The Water District has covenanted that it will levy *ad valorem* taxes on property within each Improvement District in amounts sufficient and at the times necessary to provide money for the payment of the principal of and interest on the Improvement District Bonds as the same become due.

Flow of Funds

The Indenture authorizes the establishment and administration of certain funds and accounts as follows:

All Revenues shall be promptly deposited by the Trustee upon receipt thereof in a special fund designated as the “Revenue Fund” which the Trustee shall establish, maintain and hold in trust. All Revenues deposited with the Trustee shall be held, disbursed, allocated and applied by the Trustee only as provided in the Indenture. Moneys received by the Water District for the purpose of paying the principal of and interest on the Improvement District Bonds shall be held by the Water District in a

separate Bond Fund for each series of Improvement District Bonds. The Water District shall transfer to the Paying Agent to be deposited in each Bond Payment Fund at least five (5) days before each Interest Payment Date moneys from each Bond Fund in the amount of the principal of and interest on the Improvement District Bonds on such Interest Payment Date, to the extent such funds have been received by the Water District. The Paying Agent shall transfer from the Bond Payment Funds for the Improvement District Bonds to the Trustee not less than two (2) Business Days prior to each Interest Payment Date and the Water District shall transfer to the Paying Agent from such Bond Payment Funds not less than five (5) Business Days prior to each Interest Payment Date the amount of principal of and interest on the respective Improvement District Bonds, which the Paying Agent shall deposit in separate Bond Payment Funds coming due on the next Interest Payment Date.

The Trustee shall transfer from the Revenue Fund and deposit into the following respective accounts (each of which the Trustee shall establish and maintain in trust separate and distinct from the other funds and accounts established under the Indenture), the following amounts at the following times in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account lower in priority:

(a) On each Interest Payment Date the Trustee shall deposit in the Interest Account an amount which, together with the amounts then on deposit therein, is required to cause the aggregate amount on deposit in the Interest Account to equal the amount of interest coming due and payable on the Bonds on such Interest Payment Date. All amounts in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying interest on the Bonds as it shall become due and payable. Any amounts on deposit in the Interest Account on any Interest Payment Date and not required to pay interest then due and payable on the Bonds shall be retained in the Interest Account and credited towards the payment of interest on the Bonds next coming due.

(b) On each September 1, commencing September 1, 2010, the Trustee shall deposit in the Principal Account an amount which, together with the amounts then on deposit therein, is required to cause the aggregate amount on deposit in the Principal Account to equal the amount of the principal (if any) coming due and payable (whether at maturity or by reason of mandatory sinking fund redemption) on the outstanding Bonds on such September 1. All amounts in the Principal Account shall be used and withdrawn by the Trustee solely to pay the principal of the Bonds whether at the stated maturity thereof or by reason of mandatory sinking fund redemption.

(c) On each day on which it receives amounts resulting from an optional redemption of an Improvement District Bond from the Paying Agent for the Improvement District Bonds, the Trustee shall deposit:

(i) in the Interest Account, Revenues in an amount equal to the interest payable upon the redemption of the Bonds to be called and redeemed as a result of such Improvement Bond redemption, and

(ii) in the Redemption Account, the Revenues representing the principal amount of the redemption and any redemption premium associated therewith.

AUTHORITY SOURCES AND USES OF FUNDS

The following table sets forth the expected sources and uses of the Bond proceeds:

Sources of Funds

Par Amount of Bonds	\$ 31,625,000.00
Original Issue Premium	462,999.75
Underwriter's Discount	<u>(150,218.75)</u>
TOTAL SOURCES	\$ 31,937,781.00

Uses of Funds

Purchase of Improvement District Bonds	\$ 31,298,040.88
Cost of Issuance	207,000.00
Insurance Premium	<u>432,740.12</u>
TOTAL USES	\$ 31,937,781.00

IMPROVEMENT DISTRICTS SOURCES AND USES OF FUNDS

The following table sets forth the expected sources and uses from the sale and purchase of each Improvement District Bonds:

	ID No. 21	ID No. 23	ID No. U-4
Sources of Funds			
Purchase Price of Improvement District Bonds	\$ 727,861.58	\$ 2,443,610.20	\$ 901,330.38

Uses of Funds			
Cost of Issuance	\$ 10,427.09	\$ 35,005.20	\$ 19,561.31
Project Costs	<u>717,434.49</u>	<u>2,408,605.00</u>	<u>881,769.07</u>
TOTAL USES	\$ 727,861.58	\$ 2,443,610.20	\$ 901,330.38

	ID No. U-6	ID No. U-9	ID No. U-15
Sources of Funds			
Purchase Price of Improvement District Bonds	\$ 2,704,052.84	\$ 3,098,014.38	\$ 415,923.00
Uses of Funds			
Cost of Issuance	\$ 58,666.37	\$ 67,060.90	\$ 5,958.34
Project Costs	<u>2,645,386.47</u>	<u>3,030,953.48</u>	<u>409,964.66</u>
TOTAL USES	\$ 2,704,052.84	\$ 3,098,014.38	\$ 415,923.00

	ID No. U-17	ID No. U-20	ID No. U-22
Sources of Funds			
Purchase Price of Improvement District Bonds	\$ 1,195,792.72	\$ 332,696.80	\$ 2,079,640.87
Uses of Funds			
Cost of Issuance	\$ 17,130.16	\$ 4,765.90	\$ 29,791.35
Project Costs	<u>1,178,662.56</u>	<u>327,930.90</u>	<u>2,049,849.52</u>
TOTAL USES	\$ 1,195,792.72	\$ 332,696.80	\$ 2,079,640.87

	ID No. U-35	ID No. U-36	Total
Sources of Funds			
Purchase Price of Improvement District Bonds	\$ 9,013,470.62	\$ 9,025,387.61	\$ 31,937,781.00
Uses of Funds			
Cost of Issuance	\$ 195,549.25	\$ 195,824.25	\$ 639,740.12
Project Costs	<u>8,817,921.37</u>	<u>8,829,563.36</u>	<u>31,298,040.88</u>
TOTAL USES	\$ 9,013,470.62	\$ 9,025,387.61	\$ 31,937,781.00

AUTHORITY BOND PAYMENT SCHEDULE

The following table summarizes the projected annual debt service of the Bonds.

<i>Annual Period (Ending September 1)</i>	<i>Principal</i>	<i>Interest</i>	<i>Total Debt Service</i>
2010	\$ 1,630,000	\$ 1,580,206.30	\$ 3,210,206.30
2011	1,755,000	1,452,087.54	3,207,087.54
2012	1,810,000	1,399,437.54	3,209,437.54
2013	1,865,000	1,345,137.54	3,210,137.54
2014	1,940,000	1,269,187.54	3,209,187.54
2015	475,000	1,191,587.54	1,666,587.54
2016	500,000	1,167,837.54	1,667,837.54
2017	525,000	1,142,837.54	1,667,837.54
2018	550,000	1,116,587.54	1,666,587.54
2019	580,000	1,089,087.54	1,669,087.54
2020	605,000	1,060,087.54	1,665,087.54
2021	635,000	1,034,375.04	1,669,375.04
2022	660,000	1,006,593.78	1,666,593.78
2023	690,000	976,893.78	1,666,893.78
2024	720,000	944,981.26	1,664,981.26
2025	760,000	910,781.26	1,670,781.26
2026	795,000	871,831.26	1,666,831.26
2027	835,000	831,087.54	1,666,087.54
2028	880,000	788,293.78	1,668,293.78
2029	925,000	743,193.76	1,668,193.76
2030	970,000	695,787.54	1,665,787.54
2031	1,025,000	642,437.54	1,667,437.54
2032	1,080,000	586,062.54	1,666,062.54
2033	1,140,000	526,662.54	1,666,662.54
2034	1,205,000	463,962.54	1,668,962.54
2035	1,270,000	397,687.54	1,667,687.54
2036	1,340,000	326,250.02	1,666,250.02
2037	1,385,000	250,875.00	1,635,875.00
2038	1,495,000	172,968.78	1,667,968.78
2039	<u>1,580,000</u>	<u>88,875.02</u>	<u>1,668,875.02</u>
Totals	\$31,625,000	\$26,073,682.22	\$57,698,682.22

IMPROVEMENT DISTRICTS BOND PAYMENT SCHEDULE

The following tables summarize the projected annual debt service for each series of Improvement District Bonds.

	<i>Improvement District No. 21</i>			<i>Improvement District No. 23</i>		
<i>Annual Period (Ending September 1)</i>	<i>Annual Principal Payment</i>	<i>Annual Interest Payment</i>	<i>Total Annual Debt Service</i>	<i>Annual Principal Payment</i>	<i>Annual Interest Payment</i>	<i>Total Annual Debt Service</i>
2010	\$130,000	\$ 25,308.78	\$155,308.78	\$ 438,000	\$ 84,990.75	\$ 522,990.75
2011	136,000	20,140.00	156,140.00	456,000	67,590.00	523,590.00
2012	140,000	16,060.00	156,060.00	469,000	53,910.00	522,910.00
2013	144,000	11,860.00	155,860.00	484,000	39,840.00	523,840.00
2014	<u>150,000</u>	<u>6,000.00</u>	<u>156,000.00</u>	<u>503,000</u>	<u>20,120.00</u>	<u>523,120.00</u>
Totals	\$700,000	\$ 79,368.78	\$779,368.78	\$2,350,000	\$ 266,450.75	\$ 2,616,450.75

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<i>Annual Period (Ending September 1)</i>	<i>Improvement District No. U-4</i>			<i>Improvement District No. U-6</i>		
	<i>Annual Principal Payment</i>	<i>Annual Interest Payment</i>	<i>Total Annual Debt Service</i>	<i>Annual Principal Payment</i>	<i>Annual Interest Payment</i>	<i>Total Annual Debt Service</i>
2010	\$ 12,000	\$ 48,467.26	\$ 60,467.26	\$ 37,000	\$ 145,379.40	\$ 182,379.40
2011	15,000	45,677.50	60,677.50	45,000	136,981.26	181,981.26
2012	16,000	45,227.50	61,227.50	47,000	135,631.26	182,631.26
2013	16,000	44,747.50	60,747.50	48,000	134,221.26	182,221.26
2014	17,000	44,087.50	61,087.50	50,000	132,261.26	182,261.26
2015	17,000	43,407.50	60,407.50	52,000	130,261.26	182,261.26
2016	18,000	42,557.50	60,557.50	55,000	127,661.26	182,661.26
2017	19,000	41,657.50	60,657.50	57,000	124,911.26	181,911.26
2018	20,000	40,707.50	60,707.50	60,000	122,061.26	182,061.26
2019	21,000	39,707.50	60,707.50	63,000	119,061.26	182,061.26
2020	22,000	38,657.50	60,657.50	66,000	115,911.26	181,911.26
2021	23,000	37,722.50	60,722.50	69,000	113,106.26	182,106.26
2022	24,000	36,716.26	60,716.26	72,000	110,087.50	182,087.50
2023	25,000	35,636.26	60,636.26	75,000	106,847.50	181,847.50
2024	26,000	34,480.00	60,480.00	79,000	103,378.76	182,378.76
2025	28,000	33,245.00	61,245.00	83,000	99,626.26	182,626.26
2026	29,000	31,810.00	60,810.00	87,000	95,372.50	182,372.50
2027	30,000	30,323.76	60,323.76	91,000	90,913.76	181,913.76
2028	32,000	28,786.26	60,786.26	96,000	86,250.00	182,250.00
2029	34,000	27,146.26	61,146.26	101,000	81,330.00	182,330.00
2030	35,000	25,403.76	60,403.76	106,000	76,153.76	182,153.76
2031	37,000	23,478.76	60,478.76	112,000	70,323.76	182,323.76
2032	39,000	21,443.76	60,443.76	118,000	64,163.76	182,163.76
2033	42,000	19,298.76	61,298.76	125,000	57,673.76	182,673.76
2034	44,000	16,988.76	60,988.76	131,000	50,798.76	181,798.76
2035	46,000	14,568.76	60,568.76	139,000	43,593.76	182,593.76
2036	49,000	11,981.26	60,981.26	146,000	35,775.00	181,775.00
2037	52,000	9,225.00	61,225.00	155,000	27,562.50	182,562.50
2038	54,000	6,300.00	60,300.00	163,000	18,843.76	181,843.76
2039	<u>58,000</u>	<u>3,262.50</u>	<u>61,262.50</u>	<u>172,000</u>	<u>9,675.00</u>	<u>181,675.00</u>
Totals	\$900,000	\$922,719.88	\$1,822,719.88	\$2,700,000	\$2,765,818.36	\$5,465,818.36

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<i>Annual Period (Ending September 1)</i>	<i>Improvement District No. U-9</i>			<i>Improvement District No. U-15</i>		
	<i>Annual Principal Payment</i>	<i>Annual Interest Payment</i>	<i>Total Annual Debt Service</i>	<i>Annual Principal Payment</i>	<i>Annual Interest Payment</i>	<i>Total Annual Debt Service</i>
2010	\$ 43,000	\$ 166,350.74	\$ 209,350.74	\$ 75,000	\$ 14,465.17	\$ 89,465.17
2011	52,000	156,721.26	208,721.26	77,000	11,490.00	88,490.00
2012	54,000	155,161.26	209,161.26	80,000	9,180.00	89,180.00
2013	56,000	153,541.26	209,541.26	82,000	6,780.00	88,780.00
2014	58,000	151,261.26	209,261.26	86,000	3,440.00	89,440.00
2015	60,000	148,941.26	208,941.26	--	--	--
2016	63,000	145,941.26	208,941.26	--	--	--
2017	66,000	142,791.26	208,791.26	--	--	--
2018	70,000	139,491.26	209,491.26	--	--	--
2019	73,000	135,991.26	208,991.26	--	--	--
2020	77,000	132,341.26	209,341.26	--	--	--
2021	80,000	129,068.76	209,068.76	--	--	--
2022	83,000	125,568.76	208,568.76	--	--	--
2023	87,000	121,833.76	208,833.76	--	--	--
2024	91,000	117,810.00	208,810.00	--	--	--
2025	96,000	113,487.50	209,487.50	--	--	--
2026	101,000	108,567.50	209,567.50	--	--	--
2027	106,000	103,391.26	209,391.26	--	--	--
2028	111,000	97,958.76	208,958.76	--	--	--
2029	117,000	92,270.00	209,270.00	--	--	--
2030	123,000	86,273.76	209,273.76	--	--	--
2031	130,000	79,508.76	209,508.76	--	--	--
2032	137,000	72,358.76	209,358.76	--	--	--
2033	144,000	64,823.76	208,823.76	--	--	--
2034	152,000	56,903.76	208,903.76	--	--	--
2035	161,000	48,543.76	209,543.76	--	--	--
2036	170,000	39,487.50	209,487.50	--	--	--
2037	147,000	29,925.00	176,925.00	--	--	--
2038	187,000	21,656.26	208,656.26	--	--	--
2039	<u>198,000</u>	<u>11,137.50</u>	<u>209,137.50</u>	--	--	--
Totals	\$ 3,093,000	\$3,149,108.46	\$6,242,108.46	\$ 400,000	\$ 45,355.17	\$445,355.17

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<i>Annual Period (Ending September 1)</i>	<i>Improvement District No. U-17</i>			<i>Improvement District No. U-20</i>		
	<i>Annual Principal Payment</i>	<i>Annual Interest Payment</i>	<i>Total Annual Debt Service</i>	<i>Annual Principal Payment</i>	<i>Annual Interest Payment</i>	<i>Total Annual Debt Service</i>
2010	\$ 214,000	\$ 41,584.72	\$ 255,584.72	\$ 60,000	\$ 11,559.50	\$ 71,559.50
2011	223,000	33,080.00	256,080.00	62,000	9,180.00	71,180.00
2012	230,000	26,390.00	256,390.00	64,000	7,320.00	71,320.00
2013	237,000	19,490.00	256,490.00	66,000	5,400.00	71,400.00
2014	<u>246,000</u>	<u>9,840.00</u>	<u>255,840.00</u>	<u>68,000</u>	<u>2,720.00</u>	<u>70,720.00</u>
Totals	\$1,150,000	\$130,384.72	\$1,280,384.72	\$ 320,000	\$ 36,179.50	\$ 356,179.50

Improvement District U-22

<i>Annual Period (Ending September 1)</i>	<i>Annual Principal Payment</i>	<i>Annual Interest Payment</i>	<i>Total Annual Debt Service</i>
2010	\$ 373,000	\$ 72,325.83	\$ 445,325.83
2011	388,000	57,510.00	445,510.00
2012	399,000	45,870.00	444,870.00
2013	412,000	33,900.00	445,900.00
2014	<u>428,000</u>	<u>17,120.00</u>	<u>445,120.00</u>
Totals	\$2,000,000	\$226,725.83	\$2,226,725.83

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Improvement District No. U-35

Improvement District No. U-36

<i>Annual Period (Ending September 1)</i>	<i>Annual Principal Payment</i>	<i>Annual Interest Payment</i>	<i>Total Annual Debt Service</i>	<i>Annual Principal Payment</i>	<i>Annual Interest Payment</i>	<i>Total Annual Debt Service</i>	<i>Total Improvement District Bonds Debt Service</i>
2010	\$ 123,000	\$ 484,558.08	\$ 607,558.08	\$ 125,000	\$ 485,216.07	\$ 610,216.07	\$ 3,210,206.30
2011	151,000	456,576.26	607,576.26	150,000	457,141.26	607,141.26	3,207,087.54
2012	155,000	452,046.26	607,046.26	156,000	452,641.26	608,641.26	3,209,437.54
2013	161,000	447,396.26	608,396.26	159,000	447,961.26	606,961.26	3,210,137.54
2014	167,000	440,846.26	607,846.26	167,000	441,491.26	608,491.26	3,209,187.54
2015	173,000	434,166.26	607,166.26	173,000	434,811.26	607,811.26	1,666,587.54
2016	182,000	425,516.26	607,516.26	182,000	426,161.26	608,161.26	1,667,837.54
2017	191,000	416,416.26	607,416.26	192,000	417,061.26	609,061.26	1,667,837.54
2018	200,000	406,866.26	606,866.26	200,000	407,461.26	607,461.26	1,666,587.54
2019	211,000	396,866.26	607,866.26	212,000	397,461.26	609,461.26	1,669,087.54
2020	221,000	386,316.26	607,316.26	219,000	386,861.26	605,861.26	1,665,087.54
2021	230,000	376,923.76	606,923.76	233,000	377,553.76	610,553.76	1,669,375.04
2022	241,000	366,861.26	607,861.26	240,000	367,360.00	607,360.00	1,666,593.78
2023	251,000	356,016.26	607,016.26	252,000	356,560.00	608,560.00	1,666,893.78
2024	263,000	344,407.50	607,407.50	261,000	344,905.00	605,905.00	1,664,981.26
2025	275,000	331,915.00	606,915.00	278,000	332,507.50	610,507.50	1,670,781.26
2026	289,000	317,821.26	606,821.26	289,000	318,260.00	607,260.00	1,666,831.26
2027	304,000	303,010.00	607,010.00	304,000	303,448.76	607,448.76	1,666,087.54
2028	320,000	287,430.00	607,430.00	321,000	287,868.76	608,868.76	1,668,293.78
2029	336,000	271,030.00	607,030.00	337,000	271,417.50	608,417.50	1,668,193.76
2030	353,000	253,810.00	606,810.00	353,000	254,146.26	607,146.26	1,665,787.54
2031	373,000	234,395.00	607,395.00	373,000	234,731.26	607,731.26	1,667,437.54
2032	393,000	213,880.00	606,880.00	393,000	214,216.26	607,216.26	1,666,062.54
2033	415,000	192,265.00	607,265.00	414,000	192,601.26	606,601.26	1,666,662.54
2034	438,000	169,440.00	607,440.00	440,000	169,831.26	609,831.26	1,668,962.54
2035	462,000	145,350.00	607,350.00	462,000	145,631.26	607,631.26	1,667,687.54
2036	488,000	119,362.50	607,362.50	487,000	119,643.76	606,643.76	1,666,250.02
2037	515,000	91,912.50	606,912.50	516,000	92,250.00	608,250.00	1,635,875.00
2038	544,000	62,943.76	606,943.76	547,000	63,225.00	610,225.00	1,667,968.78
2039	<u>575,000</u>	<u>32,343.76</u>	<u>607,343.76</u>	<u>577,000</u>	<u>32,456.26</u>	<u>609,456.26</u>	<u>1,668,875.02</u>
Totals	\$9,000,000	\$9,218,688.24	\$18,218,688.24	\$9,012,000	\$9,232,882.53	\$18,244,882.53	\$57,698,682.22

CONTINUING DISCLOSURE

Pursuant to the Continuing Disclosure Agreement, dated as of July 1, 2009 (the “Disclosure Agreement”), by and between the Water District and U.S. Bank National Association, as dissemination agent (the “Dissemination Agent”), the form of which is attached hereto as Appendix G, the Water District has agreed, upon the occurrence of any of the following events (the “Listed Events”), to report or, cause the Dissemination Agent to report, the occurrence of such event to the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access (“EMMA”) system and any other repository of disclosure information that may be designated by the Security and Exchange Commission in the future for the purpose of the Securities and Exchange Commission’s Rule 15c2-12 (“Rule 15c2-12”). Continuing disclosure filings under the EMMA system may be found at www.emma.msrb.org. Listed Events include: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements securing the Bonds reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the security; (7) modifications to rights of security holders; (8) unscheduled redemption of the Bonds; (9) defeasances; (10) release, substitution or sale of property or letters of credit securing repayments of the Bonds; or (11) rating changes.

In addition, the Water District has agreed in the Disclosure Agreement in connection with the issuance of the Bonds to provide, or cause the Dissemination Agent to provide, certain audited financial statements and annual financial and operating data to the EMMA system not later than February 1 of each year commencing February 1, 2010.

These covenants in the Disclosure Agreement have been made in order to assist the Underwriter in complying with Rule 15c2-12. The Owners of the Bonds are third party beneficiaries of the Disclosure Agreement. In the event the Water District fails to comply with any provision in the Disclosure Agreement, the Dissemination Agent (as defined in the Disclosure Agreement) may (or shall upon direction of the Owners of 25% in aggregate principal of the Bonds then outstanding or the Underwriter) take all action necessary to cause the Water District to comply with the Disclosure Agreement. A default under the Disclosure Agreement is not an event of default under the Improvement District Resolutions. In addition, no person or entity shall be entitled to recover any monetary damages under the Disclosure Agreement and the sole remedy is to bring an action against the Water District to compel performance with the terms of the agreement.

The Water District has entered into numerous undertakings pursuant to Rule 15c2-12. The Water District has, in the past, failed to file certain of its required annual reports in a timely manner as required by its previous continuing disclosure undertakings. The Water District has since filed all such reports and is current with respect to all filings required by its prior continuing disclosure undertakings, and has not failed to comply in all material respects with any previous continuing disclosure undertakings in the last five years.

WESTERN RIVERSIDE WATER AND WASTEWATER FINANCING AUTHORITY

The Authority is a public entity created for the joint exercise of common powers pursuant to a Joint Exercise of Powers Agreement, dated October 20, 2004 by and between the Water District and RCWD pursuant to Article 1, Chapter 5, Division 7, Title 1 of the California Government Code. The Authority is an autonomous entity separate from the Water District.

The powers and functions of the Authority are exercised by a four member Board of Directors, of which two (2) Directors are appointed by the Board of Directors of the Water District and two (2) Directors are appointed by the Board of Directors of RCWD. Each Director holds office until a successor Director is elected, serves at the pleasure of the legislative body of the appointing Member and may be removed at any time, with or without cause, at the sole discretion of such legislative body. The present Directors are:

Ronald W. Sullivan, Chairman, is the President of the Board of Directors of the Eastern Municipal Water District.

Bennett R. Drake, Vice Chairman, is a member of the Board of Directors of the Rancho California Water District.

Stephen J. Corona, Director, is the Vice President of the Board of Directors of the Rancho California Water District.

Joseph J. Kuebler, Director, is the Vice President and Treasurer of the Board of Directors of the Eastern Municipal Water District.

BOND INSURANCE

The Insurance Policy

The following information has been furnished by the Insurer for use in this Official Statement. Such information has not been independently confirmed or verified by the Authority, the Water District, the Trustee or the Underwriter. No representation is made herein by the Authority, the Water District, the Trustee or the Underwriter as to the accuracy or adequacy of such information subsequent to the date hereof, or that the information contained and incorporated herein by reference is correct. The following information is not complete and reference is made to Appendix I for a specimen of the Policy of the Insurer.

Concurrently with the issuance of the Bonds, Assured Guaranty Corp. (“Assured Guaranty” or the “Insurer”) will issue its financial guaranty insurance policy (the “Policy”) for the Bonds. The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

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

The Insurer

Assured Guaranty is a Maryland-domiciled insurance company regulated by the Maryland Insurance Administration and licensed to conduct financial guaranty insurance business in all fifty states of the United States, the District of Columbia and Puerto Rico. Assured Guaranty commenced operations in 1988. Assured Guaranty is a wholly owned, indirect subsidiary of Assured Guaranty Ltd. (“AGL”), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol “AGO.” AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, structured finance and mortgage markets. Neither AGL nor any of its shareholders is obligated to pay any debts of Assured Guaranty or any claims under any insurance policy issued by Assured Guaranty.

Assured Guaranty’s financial strength is rated “AAA” (negative outlook) by Standard & Poor’s, a division of The McGraw-Hill Companies, Inc. (“S&P”), “Aa2” (on review for possible downgrade) by Moody’s Investors Service, Inc. (“Moody’s”) and “AA” (evolving) by Fitch, Inc. (“Fitch”). Each rating of Assured Guaranty should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of any security guaranteed by Assured Guaranty. Assured Guaranty does not guaranty the market price of the securities it guarantees, nor does it guaranty that the ratings on such securities will not be revised or withdrawn.

Recent Developments

Ratings. On July 1, 2009, S&P published a Research Update in which it affirmed its “AAA” counterparty credit and financial strength ratings on Assured Guaranty. At the same time, S&P revised its outlook on Assured Guaranty to negative from stable. Reference is made to the Research Update, a copy of which is available at www.standardandpoors.com, for the complete text of S&P’s comments.

On May 20, 2009, Moody’s issued a press release stating that it had placed the “Aa2” insurance financial strength rating of Assured Guaranty on review for possible downgrade. Reference is made to the press release, a copy of which is available at www.moody.com, for the complete text of Moody’s comments.

In a press release dated May 4, 2009, Fitch announced that it had downgraded the insurer financial strength rating of Assured Guaranty to “AA” from “AAA” and placed such rating on Rating Watch Evolving. Reference is made to the press release, a copy of which is available at www.fitchratings.com, for the complete text of Fitch’s comments.

There can be no assurance as to the outcome of Moody’s review or the timing of when such review may be completed, or as to the further action that Fitch or S&P may take with respect to Assured Guaranty.

For more information regarding Assured Guaranty’s financial strength ratings and the risks relating thereto, see AGL’s Annual Report on Form 10-K for the fiscal year ended December 31, 2008, which was filed by AGL with the Securities and Exchange Commission (“SEC”) on February 26, 2009, and AGL’s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2009, which was filed by AGL with the SEC on May 11, 2009.

Acquisition of FSA. On July 1, 2009, AGL acquired the financial guaranty operations of Financial Security Assurance Holdings Ltd. (“FSA”), the parent of financial guaranty insurance company Financial Security Assurance, Inc.

Capitalization of Assured Guaranty Corp.

As of March 31, 2009, Assured Guaranty had total admitted assets of \$1,926,329,505 (unaudited), total liabilities of \$1,570,615,119 (unaudited), total surplus of \$355,714,386 (unaudited) and total statutory capital (surplus plus contingency reserves) of \$1,109,717,908 (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Incorporation of Certain Documents by Reference

The portions of the following documents relating to Assured Guaranty are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- (1) The Annual Report on Form 10-K of AGL for the fiscal year ended December 31, 2008 (which was filed by AGL with the SEC on February 26, 2009); and
- (2) The Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2009 (which was filed by AGL with the SEC on May 11, 2009).

All consolidated financial statements of Assured Guaranty and all other information relating to Assured Guaranty included in documents filed by AGL with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, subsequent to the date of this Official Statement and prior to the termination of the offering of the Bonds shall be deemed to be incorporated by reference into

this Official Statement and to be a part hereof from the respective dates of filing such consolidated financial statements.

Any statement contained in a document incorporated herein by reference or contained herein under the heading “BOND INSURANCE — The Insurer” shall be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any subsequently filed document which is incorporated by reference herein also modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

Copies of the consolidated financial statements of Assured Guaranty incorporated by reference herein and of the statutory financial statements filed by Assured Guaranty with the Maryland Insurance Administration are available upon request by contacting Assured Guaranty at 1325 Avenue of the Americas, New York, New York 10019 or by calling Assured Guaranty at (212) 974-0100. In addition, the information regarding Assured Guaranty that is incorporated by reference in this Official Statement that has been filed by AGL with the SEC is available to the public over the Internet at the SEC’s web site at <http://www.sec.gov> and at AGL’s web site at <http://www.assuredguaranty.com>, from the SEC’s Public Reference Room at 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549, and at the office of the New York Stock Exchange at 20 Broad Street, New York, New York 10005.

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

GENERAL AD VALOREM PROPERTY TAX INFORMATION

The following information concerning general ad valorem property tax information is presented as general background information. The portion of the 1% base property tax levy described below that the Water District receives from the County is not pledged to the payment of the Improvement District Bonds. See “SECURITY FOR AND SOURCES OF PAYMENTS OF THE BONDS” herein.

Ad Valorem Property Taxation

The Water District uses the services of the County for the collection of taxes for the Water District. The Water District property taxes are collected by the County at the same time and on the same rolls as county, special district, and city property taxes.

Method of Property Taxation. Beginning in fiscal year 1978-79, Article XIII A of the California Constitution (“Article XIII A”) and its implementing legislation permitted each county to levy and collect all property taxes (except for levies to support prior voter approved indebtedness) and prescribed how levies on county-wide property values were to be shared with local taxing entities within each county. All property is assessed using full cash value as defined by Article XIII A. State law, however, provides exemptions from *ad valorem* property taxation for certain classes of property such as churches, colleges, non-profit hospitals, and charitable institutions.

For purposes of allocating a county’s 1% base property tax levy, future assessed valuation growth allowed under Article XIII A (new construction, certain changes of ownership, up to 2% inflation) will be allocated on the basis of “situs” among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies and schools will share the growth of “base” sources from the tax rate area. Each year’s growth allocation becomes part of each agency’s allocation in the following year. The availability of revenue

from growth in the tax bases in such entities may be affected by the existence of redevelopment agencies which, under certain circumstances, may be entitled to sources resulting from the increase in certain property values. State law exempts \$7,000 of the assessed valuation of an owner-occupied principal residence. This exemption does not result in any loss of revenue to local agencies since an amount equivalent to the taxes that would have been payable on such exempt values is made up by the State.

Taxes are levied for each fiscal year on taxable real and personal property which is situated in a county as of the preceding January 1. Real property which changes ownership or is newly constructed is revalued at the time the change in ownership occurs or the new construction is completed. The current year property tax rate will be applied to the reassessment, and the taxes will then be adjusted by a proration factor to reflect the portion of the remaining tax year for which taxes are due.

For taxation and collection purposes, property is classified either as “secured” or “unsecured” and is listed accordingly on separate parts of the tax roll, also containing State-tax property, and property, the taxes on which are a lien on real property sufficient, in the opinion of the county assessor, to secure payment of the taxes. Other property is taxed on the “unsecured roll.”

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of each fiscal year, and if unpaid become delinquent on December 10 and April 10, respectively. A penalty of 10 percent attaches immediately to all delinquent payments. Property on the secured roll with respect to which taxes are delinquent becomes tax defaulted on or about June 30 of the fiscal year. Such property may thereafter be redeemed by payment of a penalty of 1.5 percent per month to the time of redemption, plus costs and a redemption fee. If taxes are unpaid for a period of five years or more, the property is subject to sale by the Treasurer-Tax Collector of the county levying the tax.

Property taxes on the unsecured roll are due as of the January 1 lien date and become delinquent, if unpaid, on August 31. A 10 percent penalty attaches to delinquent unsecured taxes. If unsecured taxes are unpaid at 5 p.m. on October 31, an additional penalty of 1.5 percent attaches to them on the first day of each month until paid. A county has four ways of collecting delinquent unsecured personal property taxes: (1) bringing a civil action against the taxpayer (2) filing a certificate in the office of the county clerk specifying certain facts in order to obtain a lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the county recorder’s office in order to obtain a lien on certain property of the taxpayer; and (4) seizing and selling personal property improvements or possessory interests belonging or assessed to the delinquent taxpayer.

Water District Assessed Valuation. Both the general *ad valorem* property tax levy and the additional *ad valorem* levy for the Improvement District Bonds are based upon the assessed valuation of the parcels of taxable property in the Water District (or the applicable Improvement District, as the case may be). Property taxes allocated to the Water District are collected by the County at the same time and on the same tax rolls as are county, city and special district taxes. The assessed valuation of each parcel of property is the same for both Water District and County taxing purposes. The valuation of secured property by the County is established as of January 1 and is subsequently equalized in September of each year.

Taxation of State-Assessed Utility Property. A portion of property tax revenue of the Water District is derived from utility property subject to assessment by the State Board of Equalization (the “SBE”). State-assessed property, or “unitary property,” is property of a utility system with components located in many taxing jurisdictions that are assessed as part of a “going concern” rather than as individual pieces of real or personal property. The assessed value of unitary and certain other state-assessed property is allocated to the counties by the SBE, taxed at special county-wide rates, and the tax revenues distributed to taxing jurisdictions (including the Water District) according to statutory formulae generally based on the distribution of taxes in the prior year. See Appendix A — “IMPROVEMENT DISTRICTS” herein.

Tax Levies, Collections and Delinquencies

Taxes are levied for each fiscal year on taxable real and personal property which is situated in the Water District as of the preceding January 1. A supplemental tax is levied when property changes hands or new construction is completed.

A 10% penalty attaches to any delinquent payment for secured roll taxes. In addition, property on the secured roll with respect to which taxes are delinquent becomes tax-defaulted. Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquency penalty, plus a redemption penalty to the time of redemption. If taxes are unpaid for a period of five years or more, the property is subject to auction sale by the County's Treasurer-Tax Collector.

In the case of unsecured property taxes, a 10% penalty attaches to delinquent taxes on property on the unsecured roll, and an additional penalty of 1.5% per month begins to accrue beginning November 1st of the fiscal year, and a lien is recorded against the assessee. The taxing authority has four ways of collecting unsecured personal property taxes: (a) a civil action against the taxpayer; (b) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a judgment lien on specific property of the taxpayer; (c) filing a certificate of delinquency for record in the County Recorder's office in order to obtain a lien on specified property of the taxpayer; and (d) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee.

IMPROVEMENT DISTRICTS

Sixty-one separate improvement districts have been formed to meet the needs of specific portions of the Water District based upon such factors as land use, topography, land ownership and the timing and characteristics of water supply and wastewater treatment needs. Currently, there are 32 water improvement districts, 23 sewer improvement districts and 6 combined water and sewer improvement districts covering specific areas within the Water District's boundaries, some of them overlapping, each of which was formed pursuant to the Act. These improvement districts provide a basis for facilities design, and adoption of plans of works for the construction of facilities, authorization of bonds and the determination and levy of assessments, and enable the Water District to maintain an equitable relationship between the cost and value of facilities which the Water District provides. There is no separate administrative staff for the improvement districts of the Water District. The staff of the Water District provides the planning and administrative staffing needs for the improvement districts. For a description of each Improvement District see Appendix A — "IMPROVEMENT DISTRICTS."

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES

Principal of and interest on each issue of the Improvement District Bonds are payable from the proceeds of an ad valorem tax required to be levied by the Water District on the taxable property within the applicable Improvement District in an amount sufficient for the payment thereof. See "SECURITY FOR AND SOURCES OF PAYMENTS OF THE BONDS" herein. Articles XIII A, XIII B, XIII C and XIII D of the California Constitution, Propositions 46, 62 and 1A and certain other provisions of law discussed below are discussed in this section to describe the potential effect of these Constitutional and statutory measures on the ability of the Water District to levy taxes and spend tax proceeds for operating and other purposes. It should not be inferred from the inclusion of such materials that these laws impose any limitation on the ability of the Water District to levy taxes for payment of the Improvement District Bonds. The tax levied by the County for payment of the Improvement District Bonds was approved by the voters of such Improvement District in compliance with Article XIII A, Article XIII C, and all applicable laws.

Article XIII A

On June 6, 1978, California voters approved an amendment (commonly known as both Proposition 13 and the Jarvis-Gann Initiative) to the California Constitution. This amendment, which added Article XIII A to the California Constitution, affects among other things the valuation of real property for the purpose of taxation in that it defines the full cash property 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 newly constructed, or when a change in ownership has occurred after the 1975 assessment.” The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or a reduction in the consumer price index or comparable local data at a rate not to exceed 2% per year, or reduced in the event of declining property value caused by damage, destruction or other factors including a general economic downturn. The amendment further limits the amount of any *ad valorem* tax on real property to one percent of the full cash value except that additional taxes may be levied to pay debt service on indebtedness approved by the voters prior to July 1, 1978, and bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978 by two-thirds of the votes cast by the voters voting on the proposition (55% in the case of certain school facilities).

Legislation enacted by the California Legislature to implement Article XIII A provides that all taxable property is shown at full assessed value as described above. In conformity with this procedure, all taxable property value included in this Official Statement (except as noted) is shown at 100% of assessed value and all general tax rates reflect the \$1 per \$100 of taxable value. Tax rates for voter approved bonded indebtedness and pension liability are also applied to 100% of assessed value.

Future assessed valuation growth allowed under Article XIII A (new construction, change of ownership, 2% annual value growth) is allocated on the basis of “situs” among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies and school districts share the growth of “base” revenue from the tax rate area. Each year’s growth allocation becomes part of each agency’s allocation the following year.

The Water District is unable to predict the nature or magnitude of future revenue sources which may be provided by the State in lieu of lost property tax revenues, if any. Article XIII A effectively prohibits the levying of any other ad valorem tax above the 1% limit except for taxes to support indebtedness approved by the voters as described above.

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, and 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 certain other limited circumstances.

Article XIII B

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

Appropriations subject to Article XIII B include generally any authorization to expend during the fiscal year the proceeds of taxes levied by the State or other entity of local government, exclusive of certain State subventions, refunds of taxes, benefit payments from retirement, unemployment insurance and disability insurance funds. Appropriations subject to limitation pursuant to Article XIII B do not include debt service on indebtedness existing or legally authorized as of January 1, 1979 on bonded indebtedness thereafter approved according to law by a vote of the electors of the issuing entity voting in an election for such purpose, appropriations required to comply with mandates of courts or the Federal government, appropriations for qualified outlay projects, and appropriations by the State of revenues derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990 levels. Thus, appropriations to pay debt service on the Improvement District Bonds are not subject to the limitations of Article XIII B.

“Proceeds of taxes” include, but are not limited to, all tax revenues and the proceeds to any entity of government from (a) regulatory licenses, user charges, and user fees to the extent such proceeds exceed the cost of providing the service or regulation, (b) the investment of tax revenues and (c) certain State subventions received by local governments. Article XIII B includes a requirement that if an entity’s revenues in any year exceed the amount permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two fiscal years.

As amended in June 1990, the appropriations limit for local governments in each year is based on the limit for the prior year, adjusted annually for changes in the costs of living and changes in population, and adjusted, where applicable, for transfer of financial responsibility of providing services to or from another unit of government. The change in the cost of living is, at the local government’s option, either (i) the percentage change in California per capita personal income, or (ii) the percentage change in the local assessment roll for the jurisdiction due to the addition of nonresidential new construction. The measurement of change in population is a blended average of statewide overall population growth, and change in attendance at local school and community college (“K-14”) districts.

As amended by Proposition 111, the appropriations limit is tested over consecutive two-year periods. Any excess of the aggregate “proceeds of taxes” received by the Water District over such two-year period above the combined appropriations limits for those two years is to be returned to taxpayers by reductions in tax rates or fee schedules over the subsequent two years. Any proceeds of taxes received by the Water District in excess of the appropriations limit are absorbed into the State’s allowable limit. The Water District does not currently have and does not anticipate having “proceeds of taxes” in excess of its appropriations limit.

Article XIII B permits any government entity to change the appropriations limit by vote of the electorate in conformity with statutory and Constitutional voting requirements, but any such voter-approved change can only be effective for a maximum of four years. Pursuant to statute, if a local agency receives any proceeds of taxes in excess of its appropriations limit, it may, by resolution of the governing board, increase its appropriations limit to equal the amount received, provided that the State has sufficient excess appropriations limit in that fiscal year.

Articles XIII C and XIII D

On November 5, 1996, California voters approved Proposition 218—Voters Approval for Local Government Taxes—Limitation on Fees, Assessments, and Charges—Initiative Constitutional Amendment. Proposition 218 added Articles XIII C and XIII D to the California Constitution, imposing certain vote requirements and other limitations on the imposition of new or increased taxes, assessments and property-related fees and charges. Among other things, Proposition 218 states that all taxes imposed by local governments shall be deemed to be either “general taxes” (imposed for general governmental purposes) or “special taxes” (imposed for specific purposes); prohibits special purpose government agencies, including school districts, from levying general taxes; and prohibits any local agency from imposing, extending or increasing any special tax beyond its maximum authorized rate without a two-thirds vote. Proposition 218 also provides that no tax may be assessed on property other than *ad valorem* taxes imposed in accordance with

Articles XIII and XIII A of the California Constitution and special taxes approved by a two-thirds vote under Article XIII A, Section 4.

Article XIII C also provides that the initiative power shall not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. The California Constitution and the laws of the State impose a mandatory, statutory duty on the County Treasurer-Tax Collector to levy a property tax sufficient to pay debt service on the Bonds coming due in each year. The initiative power cannot be used to reduce or repeal the authority and obligation to levy such taxes which are pledged as security for payment of the Bonds or to otherwise interfere with performance of the mandatory, statutory duty of the Water District and the County with respect to such taxes which are pledged as security for the payment of the Bonds. Legislation adopted in 1997 provides that Article XIII C shall not be construed to mean that any owner or beneficial owner of a municipal security assumes the risk of or consents to any initiative measure that would constitute an impairment of contractual rights under the contracts clause of the U.S. Constitution.

Article XIII D deals with assessments and property-related fees and charges. Article XIII D explicitly provides that nothing in Article XIII C or XIII D shall be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development; however it is not clear whether the initiative power is therefore unavailable to repeal or reduce developer and mitigation fees imposed by the Water District. No developer fees imposed by the Water District are pledged or expected to be used to pay the Bonds.

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

Proposition 46

On June 3, 1986, California voters approved Proposition 46, which provided an additional exemption to the 1% tax limitation imposed by Article XIII A. Under this amendment to Article XIII A, local governments and school districts may increase the property tax rate above 1% for the period necessary to retire new general obligation bonds, if two-thirds of those voting in a local election approve the issuance of such bonds and the money raised through the sale of the bonds is used exclusively to purchase or improve real property.

Proposition 62

Proposition 62, which was adopted by the voters at the November 4, 1986 general election, (a) requires that any new or higher taxes for general governmental purposes imposed by local governmental entities such as the Water District be approved by a two-thirds vote of the governmental entity's legislative body and by a majority vote of the voters of the governmental entity voting in an election on the tax, (b) requires that any special tax (defined as taxes levied for other than general governmental purposes) imposed by a local government entity be approved by a two-thirds vote of the voters of the governmental entity voting in an election on the tax, (c) restricts the use of revenues from a special tax to the purposes or for the service for which the special tax was imposed, (d) prohibits the imposition of ad valorem taxes on real property by local governmental entities except as permitted by Article XIII A of the California Constitution, (e) prohibits the imposition of transaction taxes and sales taxes on the sale of real property by local governmental entities, and (f) requires that any tax imposed by a local governmental entity on or after August 1, 1985, be ratified by a majority vote of the voters voting in an election on the tax within two years of the adoption of the initiative or be terminated by November 15, 1988.

On September 28, 1995, the California Supreme Court, in the case of *Santa Clara County Local Transportation Authority v. Guardino*, upheld the constitutionality of Proposition 62. In this case, the court held that a county-wide sales tax of one-half of one percent was a special tax that, under Section 53722 of the

Government Code, and was held invalid without the required two-thirds voter approval. The decision did not address the question of whether or not it should be applied retroactively.

Following the *Guardino* decision upholding Proposition 62, several actions were filed challenging taxes imposed by public agencies since the adoption of Proposition 62. On June 4, 2001, the California Supreme Court released its decision in one of these cases, *Howard Jarvis Taxpayers Association v. City of La Habra, et al.* In *La Habra*, the court held that a public agency's continued imposition and collection of a tax is an ongoing violation upon which the statute of limitations period begins anew with each collection. The court also held that, unless another statute or constitutional rule provided differently, the statute of limitations for challenges to taxes subject to Proposition 62 is three years. Accordingly, a challenge to a tax subject to Proposition 62 may only be made for those taxes received within three years of the date the action is brought.

The Water District believes that all taxes currently being collected by it comply with the requirements of Proposition 62.

Proposition 1A

On November 2, 2004, California voters approved Proposition 1A, which amends the California Constitution to significantly reduce the State's authority over major local government revenue sources. Under Proposition 1A, the State may not (i) reduce local sales tax rates or alter the method of allocating the revenue generated by such taxes, (ii) shift property taxes from local governments to schools or community colleges, (iii) change how property tax revenues are shared among local governments without two-third approval of both houses of the State Legislature, or (iv) decrease Vehicle License Fees revenues without providing local governments with equal replacement funding. Beginning in 2008-09, the State may shift to schools and community colleges a limited amount of local government property tax revenue if certain conditions are met, including (a) a proclamation by the Governor that the shift is needed due to a severe financial hardship of the State, and (b) approval of the shift by the State Legislature with a two-thirds vote of both houses of the State Legislature. Under such a shift, the State must repay local governments for their property tax losses, with interest, within three years. Proposition 1A does allow the State to approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Proposition 1A also amends the California Constitution to require the State to suspend certain State laws creating mandates in any year that the State does not fully reimburse local governments for their costs to comply with the mandates. This provision does not apply to mandates relating to schools of community colleges or to those mandates relating to employee rights.

Other Initiatives

Article XIII A, Article XIII B, Article XIII C, Article XIII D, and Propositions 46, 62 and 1A 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 the Water District's revenues or the Water District's ability to expend revenues.

TAX MATTERS

In the opinion of Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest (and original issue discount) on the Bonds is exempt from State of California personal income tax. Bond Counsel notes that, with respect to corporations, interest (and original issue discount) on the Bonds may be included as an adjustment in the calculation of alternative minimum taxable income which may affect the alternative minimum tax liability of such corporations.

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

Bond Counsel's opinion as to the exclusion from gross income of interest (and original issue discount) on the Bonds is based upon certain representations of fact and certifications made by the Authority, the Water District and others and is subject to the condition that the Water District complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds to assure that interest (and original issue discount) on the Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause the interest (and original issue discount) on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The Water District has covenanted to comply with all such requirements.

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

The Internal Revenue Service (the "IRS") has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the Bonds will be selected for audit by the IRS. It is also possible that the market value of the Bonds might be affected as a result of such an audit of the Bonds (or by an audit of similar bonds). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, Congress or the IRS might not change the Code (or interpretation thereof) subsequent to the issuance of the Bonds to the extent that it adversely affects the exclusion from gross income of interest (and original issue discount) on the Bonds or their market value.

It is possible that subsequent to the issuance of the Bonds there might be federal, state, or local statutory changes (or judicial or regulatory interpretations of federal, state, or local law) that affect the federal, state, or local tax treatment of the Bonds or the market value of the Bonds. No assurance can be given that subsequent to the issuance of the Bonds such changes or interpretations will not occur.

Bond Counsel's opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Resolution and the Tax Certificate relating to the Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the effect on the exclusion from gross income of interest (and original issue discount) on the Bonds for federal income tax purposes with respect to any Bond if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

Although Bond Counsel will render an opinion that interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes provided that the Authority and the Water District continue to comply with certain requirements of the Code, the ownership of the Bonds and the accrual or receipt of interest (and original issue discount) with respect to the Bonds may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the Bonds.

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

LITIGATION

There is no action, suit or proceeding known to be pending or threatened, restraining or enjoining the execution or delivery of the Bonds, the Indenture, the Authority Resolution, the Improvement District Bonds or the Improvement District Resolutions or in any way contesting or affecting the validity of the foregoing or any proceedings of the Authority or the Water District taken with respect to any of the foregoing.

Additionally, in the opinion of the Water District's General Counsel, there is no litigation pending against the Water District which would have a material adverse effect on the ability of the Water District to levy *ad valorem* property taxes within each Improvement District in an amount sufficient to pay the principal of and interest on the Improvement District Bonds as they become due and payable. However, there is litigation pending which may have a material adverse effect on the financial position of the Water District. See Appendix B — "EASTERN MUNICIPAL WATER DISTRICT — Litigation."

FINANCIAL STATEMENTS

The audited financial statements for the Water District for the fiscal year ended June 30, 2008 are included in Appendix C. In the opinion of the Water District, there has been no material adverse change in the financial affairs of the Water District since June 30, 2008.

RATINGS

S&P and Fitch will assign the Bonds a rating of "AAA" and "AA," respectively, based on the delivery of the Policy. S&P and Fitch have assigned underlying ratings of "A+" and "AA-," respectively, to the Bonds, notwithstanding the delivery of the Policy. Such ratings reflect only the views of such organizations and any desired explanation of the significance of the ratings should be obtained from: Standard & Poor's Public Finance Ratings, 55 Water Street, New York, New York 10041 and Fitch, Inc., One State Street Plaza, New York, New York 10004. Generally, rating agencies base their ratings on the information and materials furnished to them and on investigations, studies and assumptions of their own. There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of the rating agencies, circumstances so warrant. Any such downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Bonds.

Recent Developments Concerning Municipal Bond Insurers. S&P, Fitch and Moody's Investor Service (the "Rating Agencies") have, in recent months, downgraded the claims-paying ability and financial strength of various bond insurance companies. Additional downgrades or negative changes in the rating outlook are possible. In addition, recent events in the credit markets have had a substantial negative effect on the bond insurance business. These developments could be viewed as having a material adverse effect on the claims paying ability of the Insurer. See the caption "BOND INSURANCE — The Insurer — Recent Developments – Ratings" for more information concerning recent developments regarding the Insurer's ratings from the Rating Agencies. None of the Authority, the Water District and the Underwriter have made an independent investigation into the claims paying ability of the Insurer and no assurance or representation

regarding the financial strength or projected financial strength of the Insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the Authority to pay the principal of and interest on the Bonds from the sources described under the caption “SECURITY AND SOURCES OF PAYMENT OF THE BONDS” and the claims paying ability of the Insurer, particularly over the life of the investment. See “BOND INSURANCE” herein for further information regarding the Insurer and the Policy.

UNDERWRITING

The Bonds are being purchased by Piper Jaffray & Co. (the “Underwriter”). The Underwriter has agreed to purchase the Bonds at a price of \$31,937,781.00 (which equals the principal amount of the Bonds, plus net original issue premium of \$462,999.75 and less an Underwriter’s discount of \$150,218.75). The Bond Purchase Agreement relating to the Bonds provides that the Underwriter will purchase all of the Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Bond Purchase Agreement, the approval of certain legal matters by counsel and certain other conditions. The Underwriter’s compensation is contingent upon the issuance of the Bonds.

The Underwriter may offer and sell Bonds to certain dealers and others at prices lower than the offering prices stated on the cover page hereof. The offering prices may be changed from time to time by the Underwriter.

The Underwriter has entered into an agreement (the “Distribution Agreement”) with Advisors Asset Management, Inc. (“AAM”) for the distribution of certain municipal securities offerings allocated to the Underwriter at the original offering prices. Under the Distribution Agreement, if applicable to the Bonds, the Underwriter will share with AAM a portion of the fee or commission, exclusive of management fees, paid to the Underwriter.

GENERAL

The references, excerpts and summaries of all documents referred to herein do not purport to be complete statements of the provisions of such documents and reference is directed to all such documents for full and complete statements of all matters of fact relating to the Bonds, the security for and the source for repayment for the Bonds and the rights and obligations of the owners thereof.

The information contained in this Official Statement has been compiled from official and other sources deemed to be reliable, and is believed to be correct as of this date, but is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Underwriter.

Any statements made in this Official Statement involving matters of opinion, estimates or projections, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates or projections will be realized. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Water District.

This Official Statement has been duly authorized and delivered by the Authority and the Water District.

WESTERN RIVERSIDE WATER AND WASTEWATER
FINANCING AUTHORITY

By /s/ Ronald W. Sullivan
Chairman

EASTERN MUNICIPAL WATER DISTRICT

By /s/ Ronald W. Sullivan
President

APPENDIX A
IMPROVEMENT DISTRICTS

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APPENDIX A

IMPROVEMENT DISTRICTS

TABLE OF CONTENTS

IMPROVEMENT DISTRICT NO. 21 (MENIFEE VALLEY AREA)..... 5

- Location..... 5
- History 5
- Land Use 5
- Water Account Activity..... 5
- Security..... 6
- Litigation Concerning the Improvement District 6
- Payment of Debt Service 6
- Assessed Valuations 6
- Top Taxpayers 7
- Direct and Overlapping Debt..... 7

ID NO. 23 (MURRIETA HOT SPRINGS — WATER) 10

- Location..... 10
- History 10
- Land Use 10
- Water Account Activity..... 11
- Security..... 11
- Litigation Concerning the Improvement District 11
- Payment of Debt Service 11
- Assessed Valuations 11
- Top Taxpayers 12
- Direct and Overlapping Debt..... 12

IMPROVEMENT DISTRICT NO. U-4 (SUN CITY) 15

- Location..... 15
- History 15
- Land Use 16
- Water Account Activity..... 16
- Security..... 16
- Litigation Concerning the Improvement District 16
- Payment of Debt Service 16
- Assessed Valuations 17
- Tax Collections and Tax Delinquencies 17
- Top Taxpayers 18
- Direct and Overlapping Debt..... 19

ID NO. U-6 (SUN CITY LOCAL WATER AND SEWER)..... 21

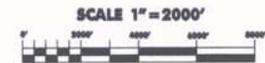
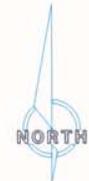
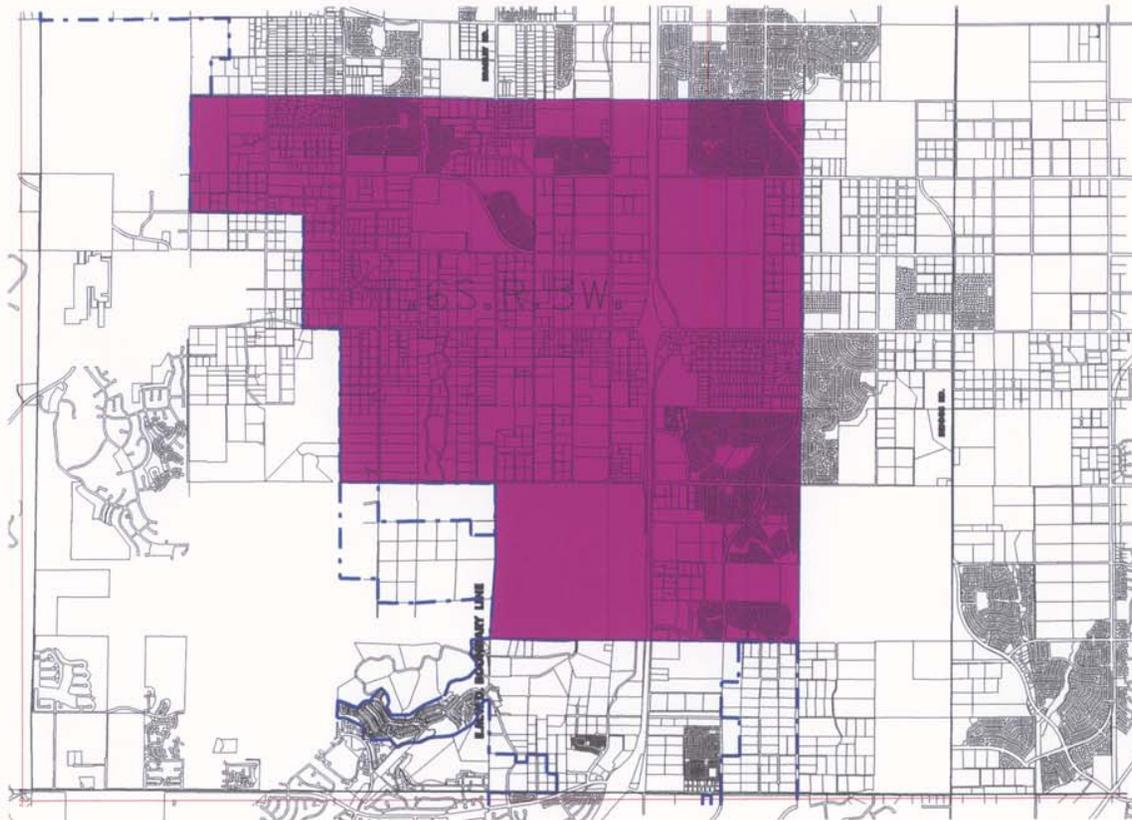
- Location..... 21
- History 21
- Land Use 22
- Water Account Activity..... 22
- Security..... 22
- Litigation Concerning the Improvement District 22
- Payment of Debt Service 22
- Assessed Valuations 22
- Top Taxpayers 23
- Direct and Overlapping Debt..... 23

IMPROVEMENT DISTRICT NO. U-9 (PERRIS VALLEY REGIONAL SEWER)	26
Location.....	26
History	26
Land Use	26
Security.....	26
Litigation Concerning the Improvement District	26
Payment of Debt Service.....	26
Assessed Valuations	26
Top Taxpayers	27
Direct and Overlapping Debt.....	28
 IMPROVEMENT DISTRICT NO. U-15 (SUN CITY LOCAL WATER AND SEWER).....	30
Location.....	30
History	30
Land Use	30
Water Account Activity.....	30
Security.....	31
Litigation Concerning the Improvement District	31
Payment of Debt Service.....	31
Assessed Valuations	31
Top Taxpayers	32
Direct and Overlapping Debt.....	33
 IMPROVEMENT DISTRICT NO. U-17 (RYAN AIRPORT - WATER).....	35
Location.....	35
History	35
Land Use	35
Water Account Activity.....	35
Security.....	36
Litigation Concerning the Improvement District	36
Payment of Debt Service.....	36
Assessed Valuations	36
Top Taxpayers	37
Direct and Overlapping Debt.....	37
 IMPROVEMENT DISTRICT NO. U-20 (NORTH SAN JACINTO - WATER).....	40
Location.....	40
History	40
Land Use	40
Water Account Activity.....	40
Security.....	41
Litigation Concerning the Improvement District	41
Payment of Debt Service.....	41
Assessed Valuations	41
Top Taxpayers	42
Direct and Overlapping Debt.....	42
 IMPROVEMENT DISTRICT NO. U-22 (EAST MORENO VALLEY).....	45
Location.....	45
History	45
Land Use	45
Security.....	45
Litigation Concerning the Improvement District	45
Payment of Debt Service.....	45

Assessed Valuations.....	46
Tax Collections and Tax Delinquencies.....	46
Top Taxpayers.....	47
Direct and Overlapping Debt.....	47
IMPROVEMENT DISTRICT NO. U-35 (SUN CITY AREA 10 - SEWER).....	50
Location.....	50
History.....	50
Land Use.....	50
Security.....	50
Litigation Concerning the Improvement District.....	50
Payment of Debt Service.....	50
Assessed Valuations.....	51
Top Taxpayers.....	52
Direct and Overlapping Debt.....	52
IMPROVEMENT DISTRICT NO. U-36 (SUN CITY AREA 10 - WATER).....	55
Location.....	55
History.....	55
Land Use.....	55
Security.....	55
Litigation Concerning the Improvement District.....	55
Payment of Debt Service.....	55
Assessed Valuations.....	56
Top Taxpayers.....	56
Direct and Overlapping Debt.....	57

EASTERN MUNICIPAL WATER DISTRICT
RIVERSIDE COUNTY, CALIFORNIA
IMPROVEMENT DISTRICT NO. 21
(MENIFEE AREA)

FORMED JULY 10, 1968



A-4

REFERENCES	NO.	REVISION	INIT.	DATE	FILE HISTORY	INIT.	DATE
STANBURY FUND NO. 68-0473					ORIGINATED		
					FINAL CHECK		
					ACCEPTED		



EASTERN MUNICIPAL WATER DISTRICT
IMPROVEMENT DISTRICT BOUNDARY
ID-21 (WATER)

RIVERSIDE COUNTY, CALIFORNIA

D-2811
DISTRICT NO.

21

**IMPROVEMENT DISTRICT NO. 21
(MENIFEE VALLEY AREA)**

Location

Improvement District No. 21 (Meniffee Valley Area) (“ID No. 21”) consists of 6,680 acres located in the southwestern portion of the Water District, about four miles south of Sun City, five miles north of Murrieta Hot Springs and ten miles north of Rancho California. The area is bisected by Interstate 215 (U.S. Highway 395) and is served by a network of improved county roads.

ID No. 21, bounded on the north by Improvement District No. 13 of the Water District, covers a gentle rolling area which ranges between 1,440 and 1,700 feet in elevation. Along the southwestern boundary the hills rise to an elevation of 2,100 feet.

History

ID No. 21 was formed on July 10, 1968, with a bond authorization of \$1,250,000, to finance a water supply and distribution system to serve the area, where the absence of an adequate and dependable water supply was curtailing development and forcing some residents to haul water to meet their minimum daily needs, and for additional facilities as required in the future.

In 1973, Series 1 bonds in the amount of \$350,000 were sold to finance the initial water supply and distribution system to serve the Meniffee Valley Area. Additional facilities have been financed and provided on a pay-as-you-go basis. In 1984, Series 2 bonds in the amount of \$200,000 were sold to finance additional water system intertie, distribution and storage facilities required to meet residential development within the Improvement District.

The proceeds of the Series 3 bond sale in the amount of \$700,000 (the “ID No. 21 Bonds”) are expected to be used for the Daily II Tank and pipelines estimated to cost \$2,700,000.

Land Use

The availability of an assured water supply (provided under the Improvement District No. 20 program), climate, topography, proximity to other rapidly developing areas and very attractive views from the area’s rolling hill terrain have resulted in the rapid conversion of the area from large acreage dry farm agricultural to small parcel (1-5 acre) rural residential use. ID No. 21 has approximately 3,662 out of 6,680 acres, or 54.8%, of undeveloped land.

Water Account Activity

The following table sets forth ID No. 21’s water account activity for the last four years:

**EASTERN MUNICIPAL WATER DISTRICT
WATER ACCOUNT ACTIVITY IN ACTIVE METERS
IMPROVEMENT DISTRICT NO. 21**

	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>
<i>January</i>	430	433	425	434
<i>June</i>	431	427	433	--

Source: Water District.

Security

The ID No. 21 Bonds are general obligations of ID No. 21 of the Water District and are secured by the taxing power of the Water District within ID No. 21. The Water District is obligated to levy *ad valorem* taxes on all taxable property within ID No. 21 (without limits as to rate or amount) sufficient to pay principal and interest on the general obligation bonds of ID No. 21 Bonds. See “GENERAL AD VALOREM PROPERTY TAX INFORMATION” herein.

Litigation Concerning the Improvement District

The Water District is not aware of any litigation which would materially adversely affect ID No. 21.

Payment of Debt Service

The Water District intends to pay debt service on the ID No. 21 Bonds as well as on any other outstanding bonds of ID No. 21, from the proceeds of *ad valorem* tax levies on property within ID No. 21. The total combined tax rate required to pay debt service on all outstanding bonds of ID No. 21, including the ID No. 21 Bonds, is \$.019 per \$100 assessed valuation. See “IMPROVEMENT DISTRICTS BOND PAYMENT SCHEDULE” herein.

Assessed Valuations

The following is a table summarizing the 2004-05 through 2008-09 assessed valuations history in ID No. 21.

**EASTERN MUNICIPAL WATER DISTRICT
ASSESSED VALUATION FOR FISCAL YEARS 2004-05 THROUGH 2008-09
IMPROVEMENT DISTRICT NO. 21**

<i>Fiscal Year</i>	<i>Local Secured</i>	<i>Utility</i>	<i>Unsecured</i>	<i>Total</i>
2004-05	\$467,186,347	\$0	\$4,758,673	\$471,945,020
2005-06	608,813,444	0	6,082,123	614,895,567
2006-07	880,605,643	0	11,849,525	892,455,168
2007-08	1,054,069,776	0	14,201,674	1,068,271,450
2008-09	1,048,908,583	0	15,215,386	1,064,123,969

Source: California Municipal Statistics, Inc.

ID No. 21 did not levy secured taxes for debt service on bonded indebtedness in fiscal year 2008-09.

Top Taxpayers

The 2008-09 local secured top twenty property taxpayers for ID No. 21 are shown in the table below.

**EASTERN MUNICIPAL WATER DISTRICT
IMPROVEMENT DISTRICT NO. 21
2008-09 LOCAL SECURED TOP TWENTY PROPERTY TAXPAYERS**

<i>Property Owner</i>	<i>Primary Land Use</i>	<i>2008-09 Assessed Valuation</i>	<i>% of Total ⁽¹⁾</i>
1. Pacten Scott Road Associates	Commercial	\$ 27,050,400	2.58%
2. Capital Pacific Holdings	Residential Development	26,968,185	2.57
3. Mapleton Commons	Apartments	23,521,385	2.24
4. KB Home Coastal Inc.	Residential Development	22,398,280	2.14
5. Garbani 2005	Vacant Land	19,794,048	1.89
6. Beazer Homes Holdings Corp.	Residential Development	17,961,369	1.71
7. Heritage Marketplace Murrieta	Commercial	13,994,035	1.33
8. Zeiders Road Business Park Inc.	Vacant Land	12,985,035	1.24
9. Physicians Hospital of Rancho California	Commercial	12,749,995	1.22
10. Wal Mart Stores Inc.	Commercial	12,155,707	1.16
11. CRV Menifee 540	Residential Development	11,384,765	1.09
12. BC Christensen Ranch	Residential Development	11,322,002	1.08
13. BC Haun Road	Commercial	10,612,080	1.01
14. Pulte/BP Murrieta Hills	Residential Development	10,459,263	1.00
15. SCC Murrieta Valley LLC	Residential Development	9,382,537	0.89
16. YCH Murrieta	Vacant Land	8,570,662	0.82
17. Trimark Pacific Terra Bella	Residential Development	8,024,735	0.77
18. Gallery Estates Partners	Residential Development	7,641,890	0.73
19. Antelope Square Inv.	Commercial	6,652,633	0.63
20. SCC Canyon II	Residential Development	<u>5,835,351</u>	<u>0.56</u>
		<u>\$279,464,357</u>	<u>26.64%</u>

⁽¹⁾ 2008-09 Local Secured Assessed Valuation: \$1,048,908,583
Source: California Municipal Statistics, Inc.

Direct and Overlapping Debt

Contained within ID No. 21 are numerous overlapping local agencies providing public services. These local agencies have outstanding debt issued in the form of general obligation, lease revenue and special tax and assessment bonds. The direct and overlapping debt of ID No. 21 is shown below. Tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds, and non-bonded capital lease obligations are excluded from the debt statement. The information has been provided by California Municipal Statistics, Inc. The Water District has not independently verified the information below and does not guaranty its accuracy.

**EASTERN MUNICIPAL WATER DISTRICT
IMPROVEMENT DISTRICT NO. 21
DIRECT AND OVERLAPPING DEBT
(as of April 1, 2009)**

2008-09 Assessed Valuation: \$1,064,123,969
 Redevelopment Incremental Valuation: 18,135,275
 Adjusted Assessed Valuation: \$1,045,988,694

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 4/1/09</u>
Metropolitan Water District	0.057%	\$ 167,252
Eastern Municipal Water District, I.D. No. 21	100.	- ⁽¹⁾
Perris Union High School District	8.537	4,901,285
Menifee Union School District	13.715	6,239,491
Menifee Union School District Community Facilities District No. 2005-2	3.408 & 100.	5,056,409
City of Murrieta Community Facilities District Nos. 2001-1, 2003-4, 2004-2 and 2005-1	28.386-100.	23,297,782
Riverside County Community Facilities District No. 05-8	82.760	9,587,746
Eastern Municipal Water District, Assessment District No. 20	67.894	<u>6,721,506</u>
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$55,971,471

<u>OVERLAPPING GENERAL FUND DEBT:</u>		
Riverside County General Fund Obligations	0.605%	\$ 4,681,333
Riverside County Pension Obligations	0.605	2,311,645
Riverside County Board of Education Certificates of Participation	0.605	50,034
Mt. San Jacinto Community College District General Fund Obligations	1.534	199,343
Perris Union High School District General Fund Obligations	8.537	2,840,687
Menifee Union School District Certificates of Participation	13.715	947,707
City of Murrieta Certificates of Participation	3.996	647,352
Valley-Wide Recreation and Park District Certificates of Participation	1.086	<u>7,493</u>
TOTAL GROSS OVERLAPPING GENERAL FUND DEBT		\$11,685,594
Less: Riverside County self-supporting obligations		102,480
Perris Union High School District self-supporting Qualified Zone Academy Bonds		<u>426,850</u>
TOTAL NET OVERLAPPING GENERAL FUND DEBT		\$11,156,264

GROSS COMBINED TOTAL DEBT \$67,657,065 ⁽²⁾
 NET COMBINED TOTAL DEBT \$67,127,735

Ratios to 2008-09 Assessed Valuation:

Direct Debt - %
 Total Direct and Overlapping Tax and Assessment Debt 5.26%

Ratios to Adjusted Assessed Valuation

Gross Combined Total Debt 6.47%
 Net Combined Total Debt 6.42%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/08: \$0

⁽¹⁾ Excludes general obligation bonds be sold.

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

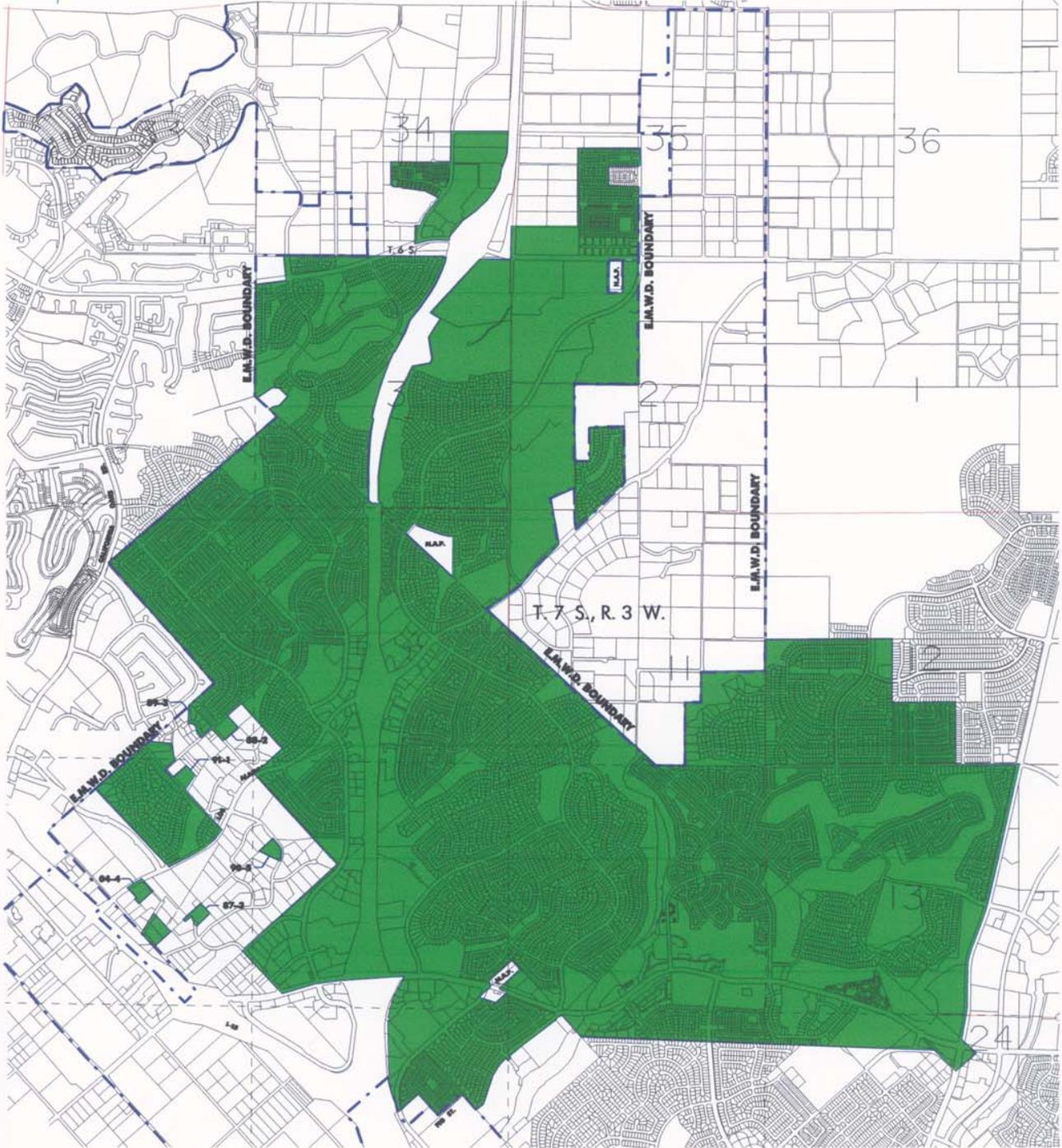
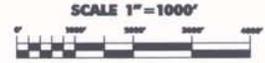
Source: California Municipal Statistics, Inc.

EASTERN MUNICIPAL WATER DISTRICT RIVERSIDE COUNTY, CALIFORNIA

IMPROVEMENT DISTRICT NO. 23 (MURRIETA HOT SPRINGS AREA)



FORMED JULY 22, 1970



REFERENCES	NO.	REVISION	INIT.	DATE	FILE HISTORY	INIT.	DATE
					ORIGINATED		
					FINAL CHECK		
					ACCEPTED		



EASTERN MUNICIPAL WATER DISTRICT
IMPROVEMENT DISTRICT BOUNDARY
ID-23 (WATER)

D-1728
DISTRICT NO.
23

RIVERSIDE COUNTY, CALIFORNIA

ID NO. 23
(MURRIETA HOT SPRINGS — WATER)

Location

ID No. 23 (Murrieta Hot Springs — Water) (“ID No. 23”) consists of 4,335 acres located in the southwestern portion of the Water District, approximately 16 miles southwest of the City of Hemet, 6 miles northwest of Rancho California, 30 miles southeast of the City of Riverside and 30 miles north of the City of Escondido. It is served by State Highway 79 along its eastern boundary lines and improved county roads which connect to Interstates 15 and 215 (U.S. Highway 395) approximately 1½ miles to the west.

It covers undulating lands with elevations ranging between 1,080 and 1,320 feet. Hilly lands, ranging up to 1,780 feet in elevation, are located immediately northwest of the Improvement Districts.

History

Improvement District No. 22 (Sewer) and ID No. 23 include the same area.

ID No. 23 was formed for the purpose of financing and providing major water supply and distribution system facilities to serve the region of the Water District covered by the Improvement District as it may be expanded in the future.

ID No. 23 of the Water District was formed on July 22, 1970 with a bond authorization of \$3,750,000 to finance water supply and distribution facilities to serve the Improvement District in keeping with the need for such facilities and service.

For 90 years Murrieta Hot Springs was occupied by a health and resort spa. In 1970, the resort and 500 acres of surrounding lands were acquired by Murrieta Hot Springs, a California Corporation. Under a coordinated development plan, the historic resort spa was modernized and expanded. In addition, large-scale condominium and mobile home subdivision development was begun. In the past, water for Murrieta Hot Springs had been supplied by local wells while sewer service for the resort was provided by on-site treatment and disposal facilities; all these services were inadequate to meet the needs of the planned development.

In 1973, ID No. 23 issued Series 1 bonds in the amount of \$900,000 to finance imported water supply, major water storage and other water supply and distribution system facilities to meet the area’s water service needs. In 1984, ID No. 23 issued Series 2 bonds in the amount of \$500,000 to assist in the financing of additional imported water supply and distribution facilities necessary to keep pace with the area’s growth and increasing service requirements.

The proceeds of the Series 3 bond sale in the amount of \$2,350,000 (the “ID No. 23 Bonds”) are expected to be used to provide financing for the La Piedra 36 inch Transmission Line and Clinton Keith Pipeline projects estimated to cost \$3,600,000.

Land Use

Prior to the formation of ID No. 23 and the beginning of the area’s planned development in 1970, the area surrounding the Murrieta Hot Springs resort spa was used for dry farm purposes. This use is being supplanted with residential (including condominiums and mobile home subdivisions), recreational and commercial development. ID No. 23 has approximately 261 out of 4,335 acres, or 6%, of undeveloped land.

Water Account Activity

The following table sets forth ID No. 23's water account activity for the last four years:

EASTERN MUNICIPAL WATER DISTRICT WATER ACCOUNT ACTIVITY IN ACTIVE METERS IMPROVEMENT DISTRICT NO. 23

	2006	2007	2008	2009
January	10,149	10,640	10,575	10,591
June	10,474	10,651	10,588	--

Source: Water District.

Security

The ID No. 23 Bonds are general obligations of ID No. 23 of the Water District and are secured by the taxing power of the Water District within ID No. 23. The Water District is obligated to levy *ad valorem* taxes on all taxable property within ID No. 23 (without limits as to rate or amount) sufficient to pay principal and interest on the general obligation bonds of ID No. 23 Bonds. See "GENERAL AD VALOREM PROPERTY TAX INFORMATION" herein.

Litigation Concerning the Improvement District

The Water District is not aware of any litigation which would materially adversely affect ID No. 23.

Payment of Debt Service

The Water District intends to pay debt service on the ID No. 23 Bonds as well as on any other outstanding bonds of ID No. 23, from the proceeds of *ad valorem* tax levies on property within ID No. 23. The total combined tax rate required to pay debt service on all outstanding bonds of ID No. 23, including the ID No. 23 Bonds, is \$.018 per \$100 assessed valuation. See "IMPROVEMENT DISTRICTS BOND PAYMENT SCHEDULE" herein.

Assessed Valuations

The following is a table summarizing the 2004-05 through 2008-09 assessed valuations history in ID No. 23.

EASTERN MUNICIPAL WATER DISTRICT ASSESSED VALUATION FOR FISCAL YEARS 2004-05 THROUGH 2008-09 ID NO. 23

Fiscal Year	Local Secured	Utility	Unsecured	Total
2004-05	\$2,021,222,559	\$0	\$28,243,796	\$2,049,466,355
2005-06	2,415,442,206	0	44,216,321	2,459,658,527
2006-07	3,171,258,977	0	43,741,884	3,215,000,861
2007-08	3,766,853,712	0	60,601,903	3,827,455,615
2008-09	3,537,062,279	0	71,284,685	3,608,346,964

Source: California Municipal Statistics, Inc.

ID No. 23 did not levy secured taxes for debt service on bonded indebtedness in fiscal year 2008-09.

Top Taxpayers

The 2008-09 local secured top twenty property taxpayers for ID No. 23 are shown in the table below.

**EASTERN MUNICIPAL WATER DISTRICT
IMPROVEMENT DISTRICT NO. 23
2008-09 LOCAL SECURED TOP TWENTY PROPERTY TAXPAYERS**

	<i>Property Owner</i>	<i>Primary Land Use</i>	<i>2008-09 Assessed Valuation</i>	<i>% of Total⁽¹⁾</i>
1.	United Dominion Realty	Apartments	\$ 48,420,139	1.37%
2.	Eagle Glen Apartments	Apartments	45,729,384	1.29
3.	Oleanders Capital Group	Commercial	38,977,106	1.10
4.	Universal Health Services of Rancho Springs	Medical Buildings	35,592,397	1.01
5.	Alta Murrieta	Apartments	32,691,990	0.92
6.	Crossroads Murrieta Partners	Commercial	32,200,857	0.91
7.	Murrieta 144 Apartments	Apartments	26,626,632	0.75
8.	Rancho Las Brisas Apartments Investors	Apartments	25,115,367	0.71
9.	GMS Murrieta Plaza	Commercial	21,555,382	0.61
10.	Carlmart	Commercial	19,283,202	0.55
11.	Deutsche Bank National Trust Co.	Residential Properties	19,261,786	0.54
12.	SCC Canyon II	Residential Development	17,588,918	0.50
13.	Home Center Murrieta	Commercial	16,498,201	0.47
14.	Margarita Ville LP	Commercial	14,187,959	0.40
15.	Pacific Castle Group	Commercial	13,936,301	0.39
16.	DKN Holdings	Commercial	12,791,088	0.36
17.	Sams Real Estate Business Trust	Commercial	12,692,215	0.36
18.	Rancho Springs Medical Venture	Medical Buildings	12,180,392	0.34
19.	Public Storage	Industrial	12,108,328	0.34
20.	U.S. Bank National Association	Residential Properties	11,114,760	0.31
			<u>\$468,552,404</u>	<u>13.25%</u>

⁽¹⁾ 2008-09 Local Secured Assessed Valuation: \$3,537,062,279
Source: California Municipal Statistics, Inc.

Direct and Overlapping Debt

Contained within ID No. 23 are numerous overlapping local agencies providing public services. These local agencies have outstanding debt issued in the form of general obligation, lease revenue and special tax and assessment bonds. The direct and overlapping debt of ID No. 23 is shown below. Tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds, and non-bonded capital lease obligations are excluded from the debt statement. The information has been provided by California Municipal Statistics, Inc. The Water District has not independently verified the information below and does not guaranty its accuracy.

**EASTERN MUNICIPAL WATER DISTRICT
ID NO. 23
DIRECT AND OVERLAPPING DEBT
(as of April 1, 2009)**

2008-09 Assessed Valuation: \$ 3,608,346,964
 Redevelopment Incremental Valuation: 38,954,449
 Adjusted Assessed Valuation: \$ 3,569,392,515

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u> <u>4/1/09</u>	<u>% Applicable</u>	<u>Debt</u>
Metropolitan Water District	0.194%	\$ 569,245
Eastern Municipal Water District, I.D. No. 22	100.	2,224,000
Eastern Municipal Water District, I.D. No. 23	100.	- (1)
Eastern Municipal Water District, I.D. No. 24	2.033	12,605
Murrieta Valley Unified School District	27.169	50,887,771
Temecula Valley Unified School District	0.389	144,338
Perris Union High School District	1.106	634,980
Menifee Union School District	1.777	808,427
Riverside County Community Facilities Districts Nos. 85-1 and 89-4	100.	4,843,900
Murrieta Valley Unified School District Community Facilities Districts	20.929-100.	<u>44,441,666</u>
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$ 104,566,932

<u>OVERLAPPING GENERAL FUND DEBT:</u>		
Riverside County General Fund Obligations	2.063%	\$ 15,962,960
Riverside County Pension Obligations	2.063	7,882,517
Riverside County Board of Education Certificates of Participation	2.063	170,610
Mt. San Jacinto Community College District General Fund Obligations	5.233	680,028
Murrieta Valley Unified School District Certificates of Participation	27.169	2,393,589
Perris Union High School District General Fund Obligations	1.106	368,022
Menifee Union School District General Fund Obligations	1.777	122,791
City of Murrieta Certificates of Participation	32.109	5,201,658
Valley-Wide Recreation and Park District Certificates of Participation	0.357	<u>2,463</u>
TOTAL GROSS OVERLAPPING GENERAL FUND DEBT		\$ 32,784,638
Less: Riverside County self-supporting obligations		349,448
Perris Union High School District self-supporting Qualified Zone Academy Bonds		<u>55,300</u>
TOTAL NET OVERLAPPING GENERAL FUND DEBT		\$ 32,379,890

GROSS COMBINED TOTAL DEBT \$ 137,351,570 (2)
 NET COMBINED TOTAL DEBT \$ 136,946,822

Ratios to 2008-09 Assessed Valuation:

Direct Debt.....-%
 Total Direct and Overlapping Tax and Assessment Debt..... 2.90%

Ratios to Adjusted Assessed Valuation:

Gross Combined Total Debt..... 3.85%
 Net Combined Total Debt..... 3.84%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/08: \$0

(1) Excludes general obligation bonds to be sold.

(2) 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.

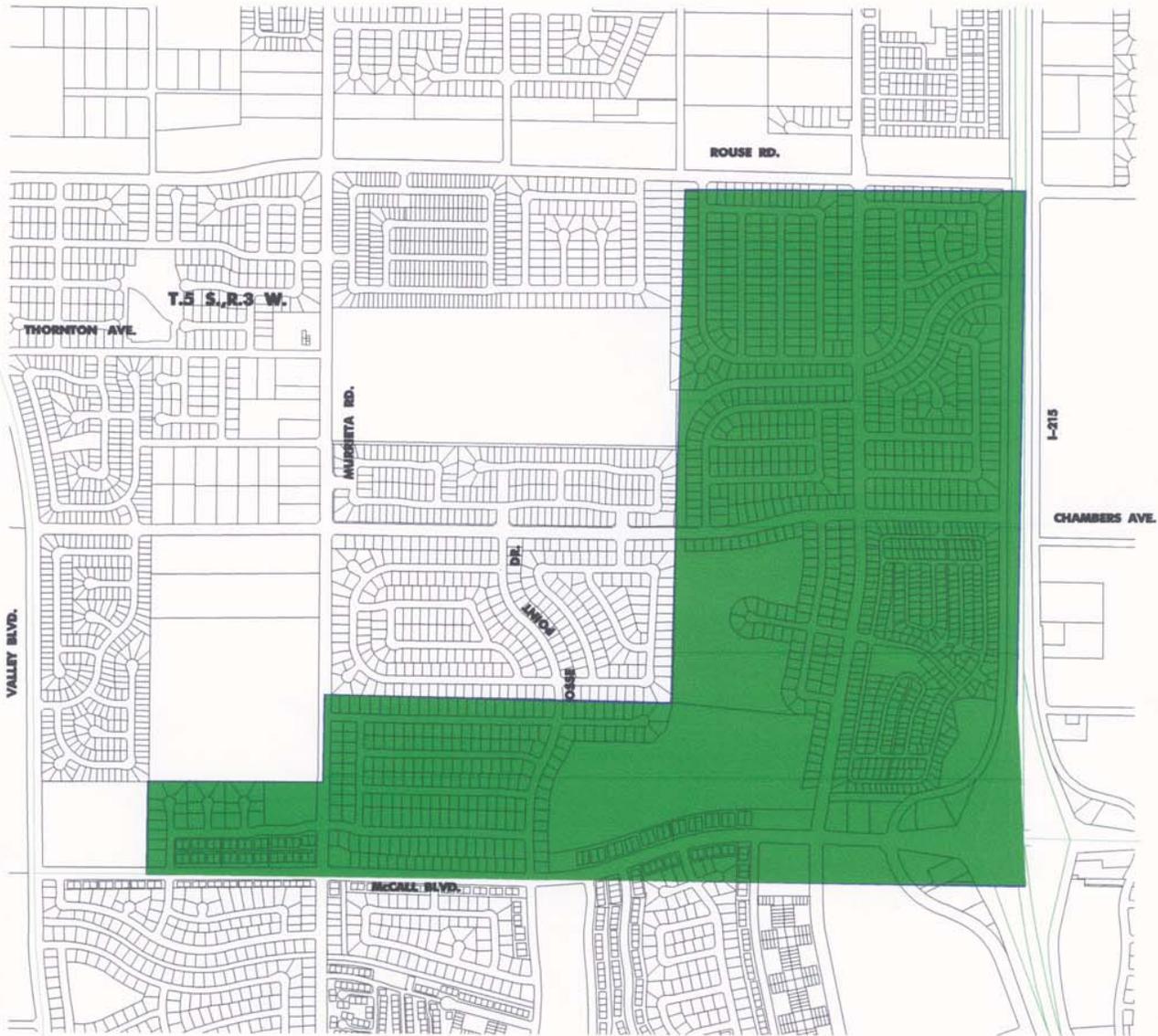
EASTERN MUNICIPAL WATER DISTRICT

RIVERSIDE COUNTY, CALIFORNIA

IMPROVEMENT DISTRICT NO. U-4

(SUN CITY AREA)

FORMED JANUARY 22, 1964



REFERENCES	NO.	REVISION	INIT.	DATE	FILE HISTORY	INIT.	DATE	EASTERN MUNICIPAL WATER DISTRICT	D-1598
					ORIGINATED			 IMPROVEMENT DISTRICT BOUNDARY ID-U-4 (SEWER & WATER) <small>RIVERSIDE COUNTY, CALIFORNIA</small>	DISTRICT NO.
					FINAL CHECK				U-4
					ACCEPTED				

IMPROVEMENT DISTRICT NO. U-4 (SUN CITY)

Location

Improvement District No. U-4 (Sun City) (“ID No. U-4”) consists of 420 acres located in the northerly portion of unincorporated community of Sun City in the Perris Valley within the Water District. It is entirely within Improvement District Nos. 13 & A (under which water supply is provided and the local water distribution system financed under the ID No. U-4 program is operated) and U-1 (under which regional sewage transmission, treatment, disposal and water reclamation facilities and service are provided and the local sewage collection system financed under ID. No. 4 program is operated). Other portions of the Sun City community are provided with local water and sewer facilities under Improvement District Nos. U-2, U-6 and U-15 programs.

The land within ID No. U-4 are on gentle slopes, ranging between 1,400 and 1,500 feet in elevation and are partially surrounded by low hills, which range up to 2,250 feet in elevation. Interstate 215 borders ID No. U-4 on the east and the area is served by a network of improved county streets and roads.

History

ID No. U-4 was formed on January 22, 1964 with a bond authorization of \$2,300,000 to finance local sewage collection and water distribution facilities for development within ID No U-4.

Former Water District policy required that:

1. Developers, under the terms of agreements with the Water District, on a tract by tract basis, pay the full actual cost of all required water distribution and sewage collection, transmission, treatment and disposal facilities required to serve the involved tract; and
2. The sale of ID No. U-4 bonds to reimburse developers to their payment of the cost of local water distribution and sewage collection facilities when at least 75 percent of the lots in the involved tract had been sold to individual owners and homes had been completed on 15 percent of the lots, provided such bonds could be legally sold without the need for exceeding certain prescribed *ad valorem* tax rates and monthly charges.

This Water District's policy assured that no public funds would be invested until the developments to be served by the facilities to be financed under the ID No. U-4 program had been constructed and firm revenue and tax bases established.

In 1974, Series 1 bonds in the amount of \$300,000 were sold to finance fee reimbursements to developers who had then qualified under the such reimbursement under the ID No. U-4 program. In 1984, Series 2 bonds in the amount of \$700,000 were sold to finance the remaining ID No. U-4 contractual reimbursement obligations. In 2005, the Series 3 bond sale in the amount of \$400,000 assisted in the financing of the replacement cost of a 12" pipeline in McCall Boulevard.

The proceeds of the Series 4 bond sale in the amount of \$900,000 (the “ID No. U-4 Bonds”) are expected to be used to support the modifications/upgrade portion of the Perris Valley Regional Wastewater Treatment Plant and Cogeneration estimated to cost \$190,000,000 at completion and to replace leaky pipes from Murrieta Road to Sun City Boulevard in Sun City, estimated to cost \$650,000.

Land Use

The development of the previously agricultural lands within ID No. U-4 for commercial, residential (including individual residence, condominium and mobile home) and recreational (golf course) purposes is now completed. Presently, ID No. U-4 does not contain any undeveloped land and is a fully developed area.

Water Account Activity

The following table sets forth ID No. U-4's water account activity for the last four years:

**EASTERN MUNICIPAL WATER DISTRICT
WATER ACCOUNT ACTIVITY IN ACTIVE METERS
IMPROVEMENT DISTRICT NO. U-4**

	2006	2007	2008	2009
<i>January</i>	903	903	895	888
<i>June</i>	898	899	886	--

Source: Water District.

Security

The ID No. U-4 Bonds are general obligations of ID No. U-4 of the Water District and are secured by the taxing power of the Water District within ID No. U-4. The Water District is obligated to levy *ad valorem* taxes on all taxable property within ID No. U-4 (without limits as to rate or amount) sufficient to pay principal and interest on the general obligation bonds of ID No. U-4 Bonds. See "GENERAL AD VALOREM PROPERTY TAX INFORMATION" herein.

Litigation Concerning the Improvement District

The Water District is not aware of any litigation which would materially adversely affect ID No. U-4.

Payment of Debt Service

The Water District intends to pay debt service on the ID No. U-4 Bonds as well as on any other outstanding bonds of ID No. U-4, from the proceeds of *ad valorem* tax levies on property within ID No. U-4. The total combined tax rate required to pay debt service on all outstanding bonds of ID No. U-4, including the ID No. U-4 Bonds, is \$0.050 per \$100 assessed valuation. See "IMPROVEMENT DISTRICTS BOND PAYMENT SCHEDULE" herein.

Assessed Valuations

The following is a summarizing the 2004-05 through 2008-09 assessed valuations history in ID No. U-4.

**EASTERN MUNICIPAL WATER DISTRICT
ASSESSED VALUATION FOR FISCAL YEARS 2004-05 THROUGH 2008-09
IMPROVEMENT DISTRICT NO. U-4**

<i>Fiscal Year</i>	<i>Local Secured</i>	<i>Utility</i>	<i>Unsecured</i>	<i>Total</i>
2004-05	\$125,425,600	\$0	\$3,231,880	\$128,657,480
2005-06	137,320,751	0	1,785,720	139,106,471
2006-07	147,745,454	0	1,424,953	149,170,407
2007-08	157,375,568	0	1,635,351	159,010,919
2008-09	153,484,882	0	1,690,283	155,175,165

Source: California Municipal Statistics, Inc.

Tax Collections and Tax Delinquencies

The following table shows the secured taxes levied in fiscal years 2004-05 through 2008-09 to pay bonded indebtedness within ID No. U-4, and the amount and percentage of delinquent secured taxes as of June 30 of such fiscal year.

**EASTERN MUNICIPAL WATER DISTRICT
SECURED TAX LEVY AND DELINQUENCY
FOR FISCAL YEARS 2004-05 THROUGH 2008-09
IMPROVEMENT DISTRICT NO. U-4**

<i>Fiscal Year</i>	<i>Secured Tax Charge ⁽¹⁾</i>	<i>Amount Delinquent June 30</i>	<i>% Delinquent June 30</i>
2004-05	\$25,209.08	\$325.63	1.29%
2005-06	25,040.52	213.51	0.85
2006-07	24,256.23	381.09	1.57
2007-08	22,756.16	688.97	3.03
2008-09	18,804.00	815.77 ⁽²⁾	4.34

⁽¹⁾ Levy for outstanding bonded indebtedness for ID No. U-4.

⁽²⁾ Delinquency figures through May 31, 2009

Source: California Municipal Statistics, Inc. for fiscal years 2004-05 through 2007-08. Water District for fiscal year 2008-09.

Top Taxpayers

The 2008-09 local secured top twenty property taxpayers for ID No. U-4 are shown in the table below.

**EASTERN MUNICIPAL WATER DISTRICT
IMPROVEMENT DISTRICT NO. U-4
2008-09 LOCAL SECURED TOP TWENTY PROPERTY TAXPAYERS**

	<i>Property Owner</i>	<i>Primary Land Use</i>	<i>2008-09 Assessed Valuation</i>	<i>% of Total ⁽¹⁾</i>
1.	Bradley Plaza	Commercial	\$ 2,543,713	1.66%
2.	Sun City Investment Co. Ltd.	Mobile Home Park	2,237,191	1.46
3.	Robert J. Schoeffler	Commercial	1,978,423	1.29
4.	AA & J Group Inc.	Commercial	1,880,528	1.23
5.	Walgreen Co.	Commercial	1,840,131	1.20
6.	Victoria Land Partners	Commercial	1,396,000	0.91
7.	World Savings Bank	Commercial	1,236,328	0.81
8.	Metropolitan Life Insurance Co.	Commercial	1,115,948	0.73
9.	North Golf Course Inc.	Commercial	840,108	0.55
10.	Sun City Medical Dental Bldg.	Commercial	811,821	0.53
11.	Bashar J. Alhajjar	Commercial	687,341	0.45
12.	Sun Regency Ltd.	Commercial	633,086	0.41
13.	Elizabeth M. Cagney	Residential	573,821	0.37
14.	Peter Keller	Commercial	565,968	0.37
15.	Downey Savings & Loan Association	Commercial	473,502	0.31
16.	Mohammad I. Shalika	Commercial	468,668	0.31
17.	Washington Mutual Bank	Commercial	401,901	0.26
18.	Jojo's Calif. Family Restaurants Inc.	Commercial	384,782	0.25
19.	James A. Christensen	Commercial	375,899	0.24
20.	Mobil Oil Corp.	Commercial	361,438	0.24
			<u>\$20,806,597</u>	<u>13.56%</u>

⁽¹⁾ 2008-09 Local Secured Assessed Valuation: \$153,484,882.
Source: California Municipal Statistics, Inc.

Direct and Overlapping Debt

Contained within ID No. U-4 are numerous overlapping local agencies providing public services. These local agencies have outstanding debt issued in the form of general obligation, lease revenue and special tax and assessment bonds. The direct and overlapping debt of ID No. U-4 is shown below. Tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds, and non-bonded capital lease obligations are excluded from the debt statement. The information has been provided by California Municipal Statistics, Inc. The Water District has not independently verified the information below and does not guaranty its accuracy.

**EASTERN MUNICIPAL WATER DISTRICT
IMPROVEMENT DISTRICT NO. U-4
DIRECT AND OVERLAPPING DEBT
(as of April 1, 2009)**

2008-09 Assessed Valuation: \$155,175,165
 Redevelopment Incremental Valuation: 1,171,347
 Adjusted Assessed Valuation: \$154,003,818

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 4/1/09</u>
Metropolitan Water District	0.008%	\$ 23,474
Eastern Municipal Water District, I.D. No. U-4	100.	379,000 ⁽¹⁾
Perris Union High School District	1.257	721,672
Menifee Union School District	2.019	<u>918,522</u>
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$2,042,668

<u>OVERLAPPING GENERAL FUND DEBT:</u>		
Riverside County General Fund Obligations	0.089%	\$ 688,659
Riverside County Pension Obligations	0.089	340,060
Riverside County Board of Education Certificates of Participation	0.089	7,360
Mt. San Jacinto Community College District General Fund Obligations	0.226	29,369
Perris Union High School District General Fund Obligations	1.257	418,267
Menifee Union School District Certificates of Participation	2.019	<u>139,513</u>
TOTAL GROSS OVERLAPPING GENERAL FUND DEBT		\$1,623,228
Less: Riverside County self-supporting obligations		15,076
Perris Union High School District self-supporting Qualified Zone Academy Bonds		<u>62,850</u>
TOTAL NET OVERLAPPING GENERAL FUND DEBT		\$1,545,302

GROSS COMBINED TOTAL DEBT	\$3,665,896 ⁽²⁾
NET COMBINED TOTAL DEBT	\$3,587,970

Ratios to 2008-09 Assessed Valuation:

Direct Debt (\$379,000)..... 0.24%
 Total Direct and Overlapping Tax and Assessment Debt..... 1.32%
 Gross Combined Total Debt 2.38%
 Net Combined Total Debt..... 2.33%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/08: \$0

(1) Excludes general obligation bonds to be sold.
 (2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

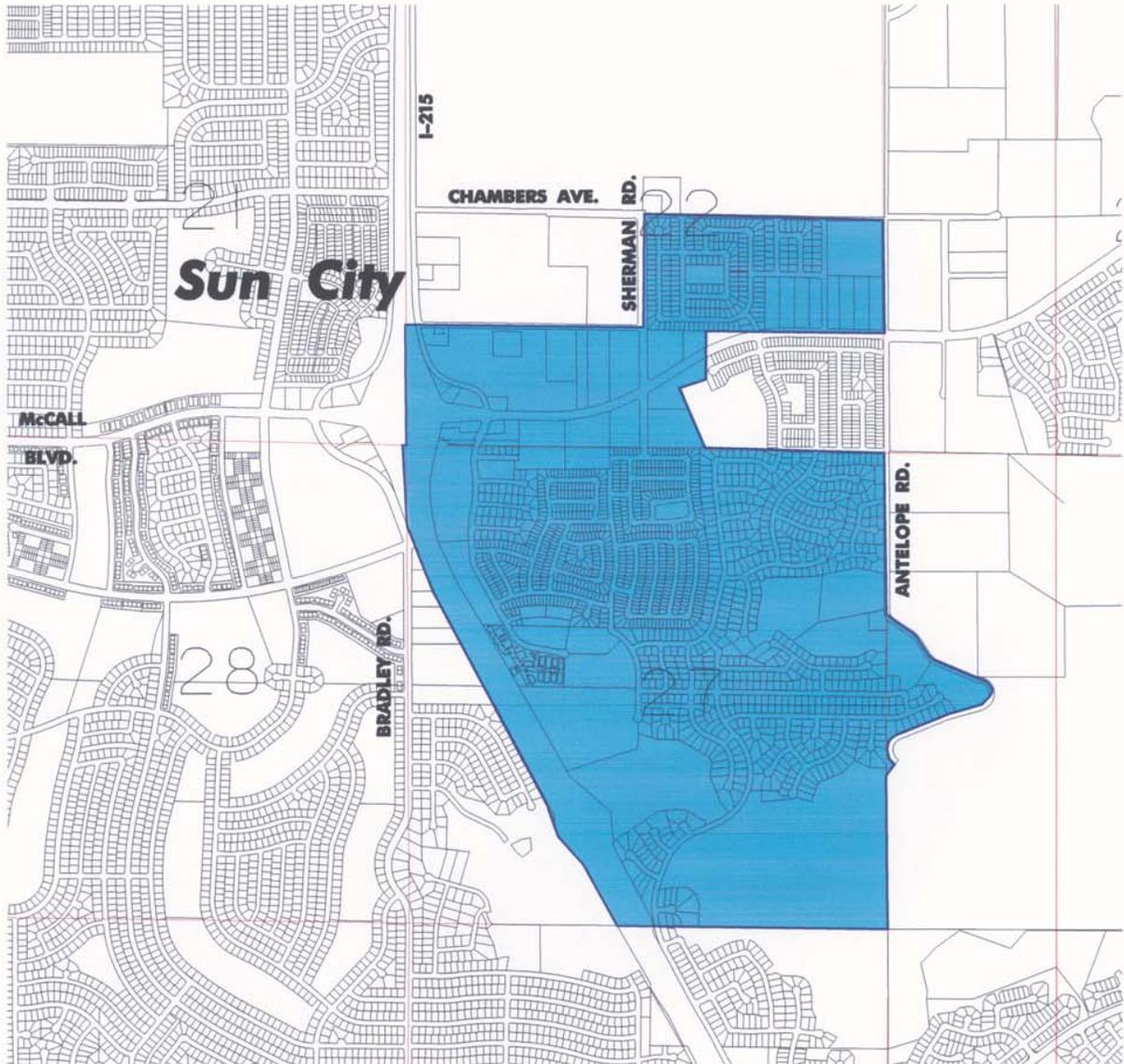
Source: California Municipal Statistics, Inc.

EASTERN MUNICIPAL WATER DISTRICT
 RIVERSIDE COUNTY, CALIFORNIA
IMPROVEMENT DISTRICT NO. U-6
 (SUN CITY AREA)

FORMED MARCH 3, 1965



SCALE 1" = 600'



REFERENCES	NO.	REVISION	INIT.	DATE	FILE HISTORY	INIT.	DATE	 EASTERN MUNICIPAL WATER DISTRICT IMPROVEMENT DISTRICT BOUNDARY ID-U-6 (SEWER & WATER) <small>RIVERSIDE COUNTY, CALIFORNIA</small>	D-1004 DISTRICT NO.
					ORIGINATED				U-6
					FINAL CHECK				
					ACCEPTED				

**ID NO. U-6
(SUN CITY LOCAL WATER AND SEWER)**

Location

ID No. U-6 (Sun City Local Water and Sewer) (“ID No. U-6”) consists of 700 acres located in the easterly portion of the unincorporated community of Sun City in the Perris Valley. ID No. U-6 is entirely within the Water District’s Improvement Districts Nos. 13 & A (under which water supply is provided and the local water distribution system financed under the ID No. U-6 program is operated) and U-1 (under which regional sewage transmission, treatment, disposal and water reclamation facilities and service are provided and the local sewage collection system financed under the ID No. U-6 program is operated). Other portions of the Sun City community are provided with local water and sewer facilities under the Water District’s Improvement District’s U-2, U-4 and U-15 programs.

The lands within these Improvement Districts are on gentle slopes, ranging between 1,400 and 1,500 feet in elevation, and are partially surrounded by low hills, which range up to 2,250 feet in elevation. Interstate 215 (formerly known as Interstate 15E and U.S. Highway 395) borders ID No. U-6 on the west and the area is served by a network of improved county streets.

History

ID No. U-6 was formed on March 3, 1965 with a bond authorization of \$2,750,000 for the purpose of financing local sewage collection and water distribution facilities to serve development within the Improvement District.

Former Water District policy required that: (a) developers, under the terms of agreements with the District, on a tract by tract basis, pay the full actual cost of all water distribution and sewage collection facilities required to serve the involved tract; and (b) the sale of ID No. U-6 bonds to reimburse developers for their payment of the cost of local water distribution and sewage collection facilities when the involved tract had been fully developed with completed residential dwelling units, at least 50 percent of which have been sold and occupied, provided such bonds could be legally sold without the need for exceeding certain prescribed ad valorem tax rates and monthly charges.

This Water District policy assured that no public funds would be invested until the developments to be served by the facilities to be financed under the ID No. U-6 program had been constructed and firm revenue and tax bases established

Although the contractual development and occupancy reimbursement eligibility requirements for this tract were satisfied several years ago, the sale of bonds to finance the District’s contractual reimbursement obligations to the developer could not be made until the issuance of the decision of the Court of Appeal of the State of California, Second Appellate District, Division Two in the case of Las Virgenes Municipal Water District v. Ann Dorgelo in April of this year.

The ID U-6 Series 1 bond sale in the amount of \$50,000 was used, together with other available funds, to complete payment of a contractual reimbursement obligation and to assist in the financing of additional local water distribution and sewage collection facilities to meet increasing service needs.

The proceeds of the Series 2 bond sale in the amount of \$2,700,000 (the “ID No. U-6 Bonds”) are expected to be used to support the modifications/upgrade portion of the Perris Valley Regional Wastewater Treatment Plant and Cogeneration estimated to cost \$190,000,000 at completion and to be used toward completion of: water improvements in Newport/Goetz/Berea Road; the Tally Road Tank; and the Pebble Beach Pipeline replacement project estimated to cost approximately \$8,700,000 at completion.

Land Use

The previously agricultural lands within ID No. U-6 are being developed for commercial and residential purposes at a modest steady rate. ID No. U-6 has approximately 209 out of 700 acres, or 29.9%, of undeveloped land.

Water Account Activity

The following table sets forth ID No. U-6's water account activity for the last four years:

**EASTERN MUNICIPAL WATER DISTRICT
WATER ACCOUNT ACTIVITY IN ACTIVE METERS
ID NO. U-6**

	2006	2007	2008	2009
<i>January</i>	1,126	1,171	1,169	1,174
<i>June</i>	1,174	1,168	1,171	--

Source: Water District.

Security

The ID No. U-6 Bonds are general obligations of ID No. U-6 of the Water District and are secured by the taxing power of the Water District within ID No. U-6. The Water District is obligated to levy *ad valorem* taxes on all taxable property within ID No. U-6 (without limits as to rate or amount) sufficient to pay principal and interest on the general obligation bonds of ID No. U-6 Bonds. See "GENERAL AD VALOREM PROPERTY TAX INFORMATION" herein.

Litigation Concerning the Improvement District

The Water District is not aware of any litigation which would materially adversely affect ID No. U-6.

Payment of Debt Service

The Water District intends to pay debt service on the ID No. U-6 Bonds as well as on any other outstanding bonds of ID No. U-6, from the proceeds of *ad valorem* tax levies on property within ID No. U-6. The total combined tax rate required to pay debt service all outstanding bonds of ID No. U-6, including the ID No. U-6 Bonds, is \$.050 per \$100 assessed valuation. See "IMPROVEMENT DISTRICTS BOND PAYMENT SCHEDULE" herein.

Assessed Valuations

The following is a table summarizing the 2004-05 through 2008-09 assessed valuations history in ID No. U-6.

**EASTERN MUNICIPAL WATER DISTRICT
ASSESSED VALUATION FOR FISCAL YEARS 2004-05 THROUGH 2008-09
IMPROVEMENT DISTRICT NO. U-6**

<i>Fiscal Year</i>	<i>Local Secured</i>	<i>Utility</i>	<i>Unsecured</i>	<i>Total</i>
2004-05	\$213,136,590	\$0	\$1,141,698	\$214,278,288
2005-06	279,606,438	0	1,239,121	280,845,559
2006-07	375,807,310	0	903,631	376,710,941
2007-08	426,274,883	0	959,429	427,234,312
2008-09	384,526,867	0	968,175	385,495,042

Source: California Municipal Statistics, Inc.

ID No. U-6 did not levy secured taxes for debt service on bonded indebtedness in fiscal year 2008-09.

Top Taxpayers

The 2008-09 local secured top twenty property taxpayers for ID No. U-6 are shown in the table below.

**EASTERN MUNICIPAL WATER DISTRICT
ID NO. U-6
2008-09 LOCAL SECURED TOP TWENTY PROPERTY TAXPAYERS**

<i>Property Owner</i>	<i>Primary Land Use</i>	<i>2008-09 Assessed Valuation</i>	<i>% of Total ⁽¹⁾</i>
1. Villa La Paz	Apartments	\$ 9,824,000	2.55%
2. Hoprock Sun City	Commercial	9,473,273	2.46
3. John Harding	Apartments	8,136,713	2.12
4. Sunrise Self Storage	Industrial	6,562,680	1.71
5. Pulte Home Corp.	Residential Development	3,831,556	1.00
6. Murray Central Housing LP	Apartments	3,371,245	0.88
7. Loma Linda Healthcare Prop.	Commercial	3,204,241	0.83
8. San Marcos Townhomes	Residential	2,845,494	0.74
9. Ronald J. Hartley	Apartments	2,578,233	0.67
10. Encanto Apartment Homes	Residential	2,310,300	0.60
11. McCall Sun City	Commercial	2,122,412	0.55
12. Wells Fargo Bank NA	Residential	1,758,000	0.46
13. Onondaga Partners	Residential	1,506,000	0.39
14. Pravin G. Patel	Commercial	1,419,039	0.37
15. U.S. Bank National Association	Residential	1,393,000	0.36
16. Jacqueline Joy Humphries	Commercial	1,180,852	0.31
17. Deutsche Bank National Trust Co.	Residential	1,104,000	0.29
18. DBWEN	Commercial	888,747	0.23
19. Federal Home Loan Mortgage Corp.	Residential	872,000	0.23
20. Cloverfield Properties	Residential	802,000	0.21
		<u>\$65,183,785</u>	<u>16.95%</u>

⁽¹⁾ 2008-09 Local Secured Assessed Valuation: \$384,526,867.
Source: California Municipal Statistics, Inc.

Direct and Overlapping Debt

Contained within ID No. U-6 are numerous overlapping local agencies providing public services. These local agencies have outstanding debt issued in the form of general obligation, lease revenue and special tax and assessment bonds. The direct and overlapping debt of ID No. U-6 is shown below. Tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds, and non-bonded capital lease obligations are excluded from the debt statement. The information has been provided by California Municipal Statistics, Inc. The Water District has not independently verified the information below and does not guaranty its accuracy.

**EASTERN MUNICIPAL WATER DISTRICT
ID NO. U-6
DIRECT AND OVERLAPPING DEBT
(as of April 1, 2009)**

2008-09 Assessed Valuation: \$385,495,042
 Redevelopment Incremental Valuation: 13,883,375
 Adjusted Assessed Valuation: \$371,611,667

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 4/1/09</u>
Metropolitan Water District	0.020%	\$ 58,685
Eastern Municipal Water District, I.D. No. U-6	100.	- ⁽¹⁾
Perris Union High School District	3.033	1,741,314
Menifee Union School District	4.770	2,170,060
Menifee Union School District Community Facilities District Nos. 94-1, 2004-3 & 2002-4	7.925-100.	4,859,729
Eastern Municipal Water District Community Facilities District No. 2004-30	100.	<u>2,705,000</u>
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$11,534,788

<u>OVERLAPPING GENERAL FUND DEBT:</u>		
Riverside County General Fund Obligations	0.215%	\$1,663,614
Riverside County Pension Obligations	0.215	821,494
Riverside County Board of Education Certificates of Participation	0.215	17,781
Mt. San Jacinto Community College District General Fund Obligations	0.545	70,823
Perris Union High School District General Fund Obligations	3.033	1,009,231
Menifee Union School District Certificates of Participation	4.770	329,607
Valley-Wide Recreation and Park District Certificates of Participation	1.057	<u>7,293</u>
TOTAL GROSS OVERLAPPING GENERAL FUND DEBT		\$3,919,843
Less: Riverside County self-supporting obligations		36,419
Perris Union High School District self-supporting Qualified Zone Academy Bonds		<u>151,650</u>
TOTAL NET OVERLAPPING GENERAL FUND DEBT		\$3,731,774

GROSS COMBINED TOTAL DEBT \$15,454,631 ⁽²⁾
 NET COMBINED TOTAL DEBT \$15,266,562

Ratios to 2008-09 Assessed Valuation:

Direct Debt - %
 Total Direct and Overlapping Tax and Assessment Debt 2.99%

Ratios to Adjusted Assessed Valuation:

Gross Combined Total Debt 4.16%
 Net Combined Total Debt 4.11%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/08: \$0

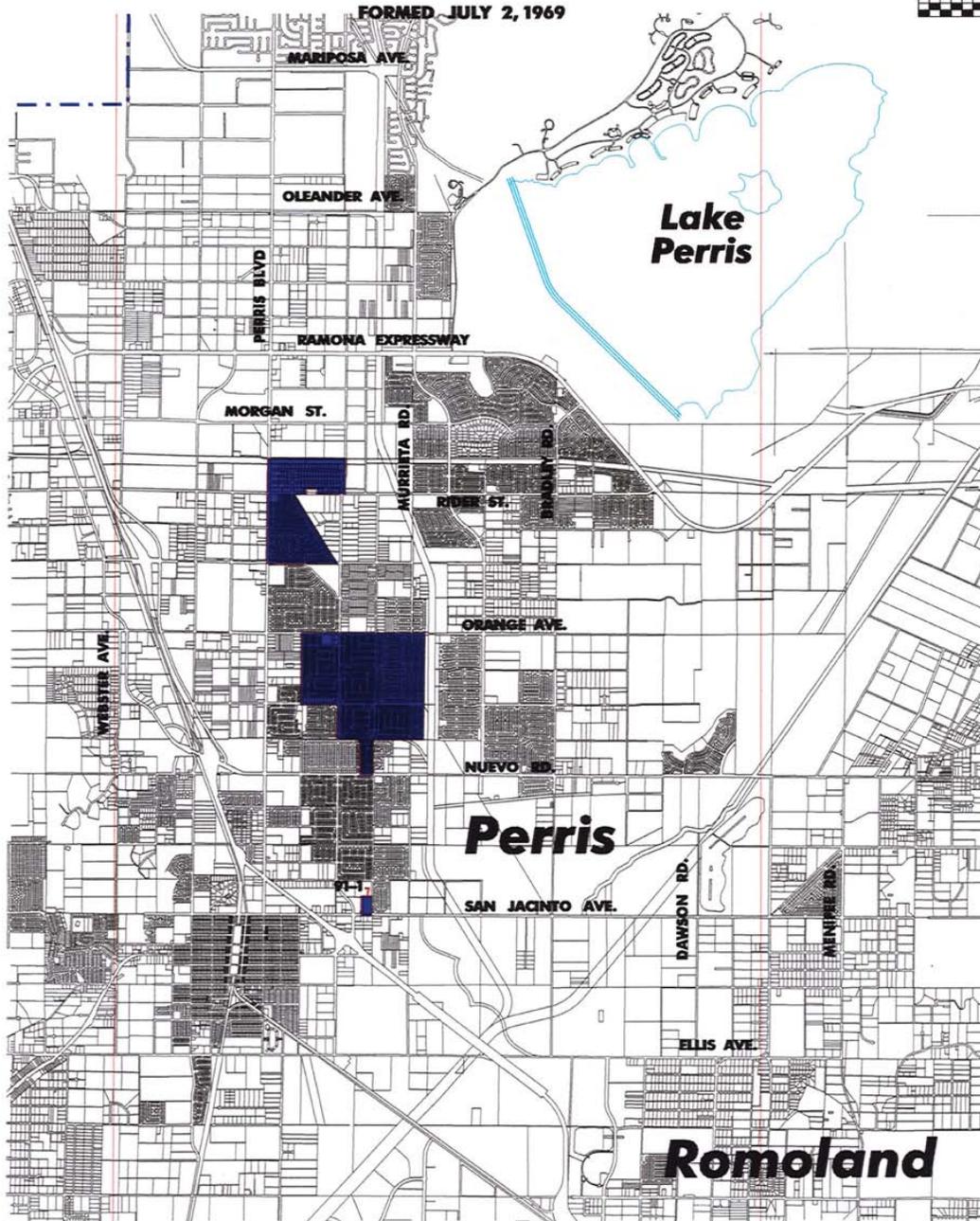
(1) Excludes general obligation bonds to be sold.

(2) 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.

EASTERN MUNICIPAL WATER DISTRICT
RIVERSIDE COUNTY, CALIFORNIA
IMPROVEMENT DISTRICT NO. U-9
(PERRIS VALLEY AREA)

SCALE 1" = 2000'



REFERENCES	NO.	REVISION	INIT.	DATE	FILE HISTORY	INIT.	DATE	 EASTERN MUNICIPAL WATER DISTRICT IMPROVEMENT DISTRICT BOUNDARY ID-U-9 (SEWER) RIVERSIDE COUNTY, CALIFORNIA	5D-1650 DISTRICT NO.
					ORIGINATED				U-9
					FINAL CHECK				
					ACCEPTED				

IMPROVEMENT DISTRICT NO. U-9 (PERRIS VALLEY REGIONAL SEWER)

Location

Improvement District No. U-9 (Perris Valley Regional Sewer) (“ID No. U-9”) consists of 565 acres located in the Perris Valley in the north-central portion of the Water District. ID No. U-9 is located east of Interstate 215 and to the west of Lake Perris.

History

ID No. U-9 was formed on July 2, 1969 with a bond authorization of \$4,600,000 for the purpose of the financing of major sewer transmission (interceptor), treatment, disposal and water reclamation system facilities benefiting the lands, development and residents within ID No. U-9, including the financial participation with other District programs in the cost of “joint” benefit facilities.

The proceeds of the Series 1 bond sale in the amount of \$3,093,000 (the “ID No. U-9 Bonds”) are expected to be used to support the modifications/upgrade portion of the Perris Valley Regional Wastewater Treatment Plant and Cogeneration estimated to cost \$190,000,000 at completion.

Land Use

The area is located within a highly developed portion of the City of Perris. Presently, the development within ID No. U-9 includes residential housing, commercial, and diversified residential property. ID No. U-9 has approximately 58 out of 565 acres, or 10.3%, of undeveloped land.

Security

The ID No. U-9 Bonds are general obligations of ID No. U-9 of the Water District and are secured by the taxing power of the Water District within ID No. U-9. The Water District is obligated to levy *ad valorem* taxes on all taxable property within ID No. U-9 (without limits as to rate or amount) sufficient to pay principal and interest on the general obligation bonds of ID No. U-9 Bonds. See “GENERAL AD VALOREM PROPERTY TAX INFORMATION” herein.

Litigation Concerning the Improvement District

The Water District is not aware of any litigation which would materially adversely affect ID No. U-9.

Payment of Debt Service

The Water District intends to pay debt service on the ID No. U-9 Bonds as well as on any other outstanding bonds of ID No. U-9, from the proceeds of *ad valorem* tax levies on property within ID No. U-9. The total combined tax rate required to pay debt service all outstanding bonds of ID No. U-9, including the ID No. U-9 Bonds, is \$.050 per \$100 assessed valuation. See “IMPROVEMENT DISTRICTS BOND PAYMENT SCHEDULE” herein.

Assessed Valuations

The following is a table summarizing the 2004-05 through 2008-09 assessed valuations history in ID No. U-9.

**EASTERN MUNICIPAL WATER DISTRICT
 ASSESSED VALUATION FOR FISCAL YEARS 2004-05 THROUGH 2008-09
 IMPROVEMENT DISTRICT NO. U-9**

<i>Fiscal Year</i>	<i>Local Secured</i>	<i>Utility</i>	<i>Unsecured</i>	<i>Total</i>
2004-05	\$348,938,566	\$55,138	\$347,678	\$349,341,382
2005-06	432,662,543	55,138	531,737	433,249,418
2006-07	613,847,287	130,330	406,741	614,384,358
2007-08	688,402,051	130,330	518,219	689,050,600
2008-09	642,977,529	130,330	492,278	643,600,137

Source: California Municipal Statistics, Inc.

ID No. U-9 did not levy secured taxes for debt service on bonded indebtedness in fiscal year 2008-09.

Top Taxpayers

The 2008-09 local secured top twenty property taxpayers for ID No. U-9 are shown in the table below.

**EASTERN MUNICIPAL WATER DISTRICT
 IMPROVEMENT DISTRICT NO. U-9
 2008-09 LOCAL SECURED TOP TWENTY PROPERTY TAXPAYERS**

<i>Property Owner</i>	<i>Primary Land Use</i>	<i>2008-09 Assessed Valuation</i>	<i>% of Total⁽¹⁾</i>
1. Deutsche Bank National Trust Co.	Residential Properties	\$ 8,499,118	1.32%
2. U.S. Bank National Association	Residential Properties	6,177,612	0.96
3. Alere Perris	Commercial	4,781,250	0.74
4. Bank of New York	Residential Properties	3,889,672	0.60
5. LaSalle Bank	Residential Properties	3,478,938	0.54
6. HSBC Bank USA	Residential Properties	2,130,500	0.33
7. BP Ironwood 55	Commercial	2,036,440	0.32
8. Wells Fargo Bank National Association	Residential Properties	1,609,000	0.25
9. Perris Parkside Villas	Residential	1,434,090	0.22
10. Willowbrook Residential	Residential	1,039,191	0.16
11. San Clemente Holdings	Commercial	920,754	0.14
12. Ignacio Flores	Residential	898,312	0.14
13. Richard Riley	Commercial	887,400	0.14
14. Inland Property Investors	Commercial	876,769	0.14
15. RCM Homes	Residential	841,500	0.13
16. Eagle Systems International Inc.	Commercial	796,762	0.12
17. Tallak	Residential	770,000	0.12
18. Ramiro Rubalcaba	Commercial	752,209	0.12
19. Federal Home Loan Mortgage Corp.	Residential	726,000	0.11
20. Eligeo Investments Inc.	Commercial	663,000	0.10
		<u>\$ 43,208,517</u>	<u>6.72%</u>

⁽¹⁾ 2008-09 Local Secured Assessed Valuation: \$642,977,529.
 Source: California Municipal Statistics, Inc.

Direct and Overlapping Debt

Contained within ID No. U-9 are numerous overlapping local agencies providing public services. These local agencies have outstanding debt issued in the form of general obligation, lease revenue and special tax and assessment bonds. The direct and overlapping debt of ID No. U-9 is shown below. Tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds, and non-bonded capital lease obligations are excluded from the debt statement. The information has been provided by California Municipal Statistics, Inc. The Water District has not independently verified the information below and does not guaranty its accuracy.

**EASTERN MUNICIPAL WATER DISTRICT
IMPROVEMENT DISTRICT NO. U-9
DIRECT AND OVERLAPPING DEBT
(as of April 1, 2009)**

2008-09 Assessed Valuation: \$643,600,137
 Redevelopment Incremental Valuation: 224,408,885
 Adjusted Assessed Valuation: \$419,191,252

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 4/1/09</u>
Metropolitan Water District	0.023%	\$ 67,488
Eastern Municipal Water District, I.D. No. U-9	100.	- ⁽¹⁾
Riverside City Community College District	0.435	614,725
Val Verde Unified School District	5.678	1,703,400
Perris Union High School District	1.048	601,680
Perris School District	6.326	490,238
City of Perris Community Facilities District Nos. 88-3, 90-1, 2002-1 & 2004-2	64.345-100.	<u>16,811,777</u>
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$20,289,308
 <u>OVERLAPPING GENERAL FUND DEBT:</u>		
Riverside County General Fund Obligations	0.242%	\$1,872,533
Riverside County Pension Obligations	0.242	924,658
Riverside County Board of Education Certificates of Participation	0.242	20,013
Mt. San Jacinto Community College District General Fund Obligations	0.188	24,431
Val Verde Unified School District Certificates of Participation	5.678	5,668,064
Perris Union High School District General Fund Obligations	1.048	348,722
Perris School District General Fund Obligations	6.326	<u>560,484</u>
TOTAL GROSS OVERLAPPING GENERAL FUND DEBT		\$9,418,905
Less: Riverside County self-supporting obligations		40,992
Perris Union High School District self-supporting Qualified Zone Academy Bonds		<u>52,400</u>
TOTAL NET OVERLAPPING GENERAL FUND DEBT		\$9,325,513
 GROSS COMBINED TOTAL DEBT		\$29,708,213 ⁽²⁾
NET COMBINED TOTAL DEBT		\$29,614,821

Ratios to 2008-09 Assessed Valuation:

Direct Debt	- %
Total Direct and Overlapping Tax and Assessment Debt.....	3.15%
Gross Combined Total Debt	7.09%
Net Combined Total Debt.....	7.06%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/08: \$0

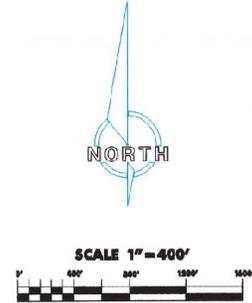
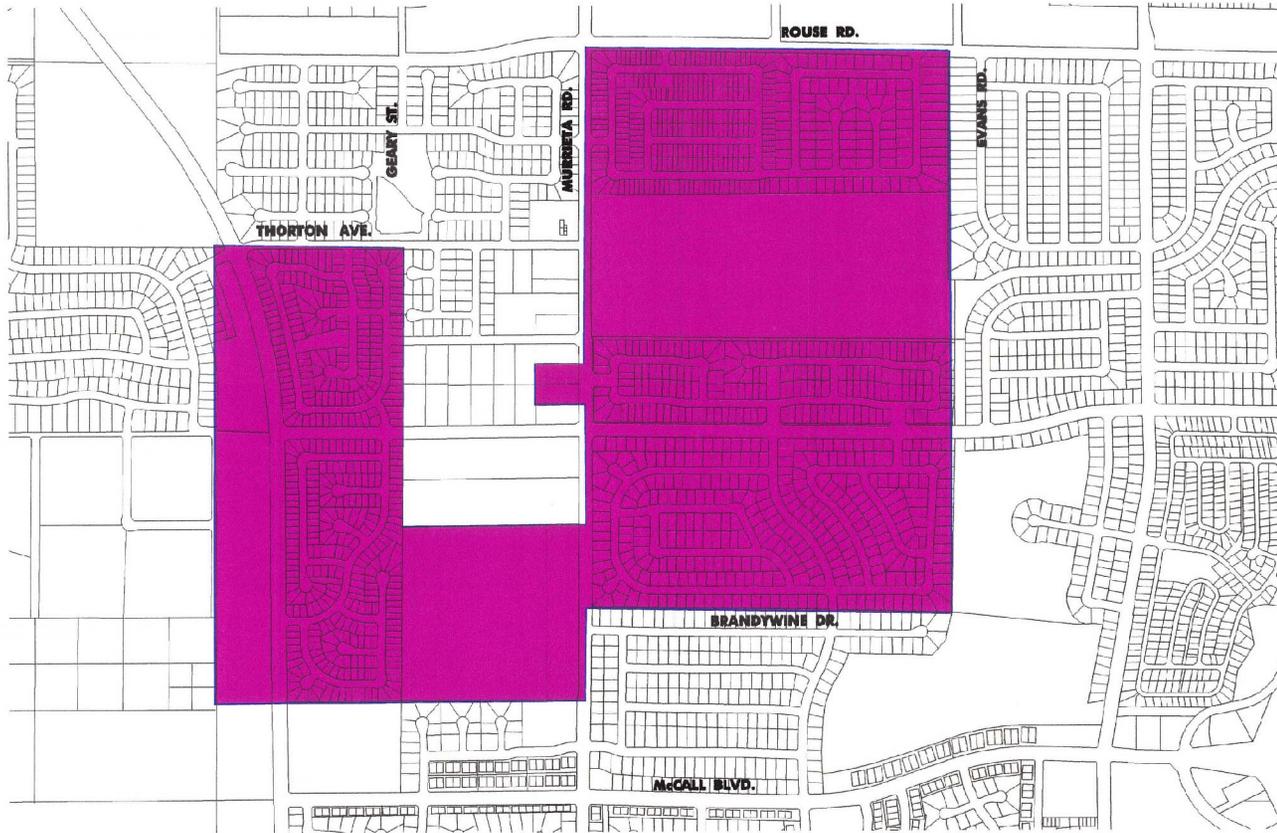
⁽¹⁾ Excludes general obligation bonds to be sold.

⁽²⁾ 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.

EASTERN MUNICIPAL WATER DISTRICT
 RIVERSIDE COUNTY, CALIFORNIA
IMPROVEMENT DISTRICT NO. U-15
 (SUN CITY AREA)

FORMED FEBRUARY 16, 1972



A-29

REFERENCES	NO.	REVISION	INIT.	DATE	FILE HISTORY	INIT.	DATE
					ORIGINATED		
					FINAL CHECK		
					ACCEPTED		



EASTERN MUNICIPAL WATER DISTRICT
IMPROVEMENT DISTRICT BOUNDARY
ID-U-15 (SEWER & WATER)
 RIVERSIDE COUNTY, CALIFORNIA

D-2610
 DISTRICT NO.
U-15

**IMPROVEMENT DISTRICT NO. U-15
(SUN CITY LOCAL WATER AND SEWER)**

Location

Improvement District No. U-15 (Sun City Local Water and Sewer) (“ID No. U-15”) consists of 373 acres located in the northwesterly portion of the unincorporated community of Sun City in the Perris Valley. ID No. U-15 is entirely within the Water District’s Improvement Districts Nos. 13 & A (under which water supply is provided and the local water distribution system financed under the Improvement District No. U-15 program is operated) and U-1 (under which regional sewage transmission, treatment, disposal and water reclamation facilities and service are provided and the local sewage collection system financed under the Improvement District No. U-15 program is operated). Other portions of the Sun City community are provided with local water and sewer facilities under the Water District’s Improvement Districts Nos. U-2, U-4 and U-6 programs.

The lands within these Improvement Districts are on gentle slopes, ranging between 1,430 and 1,500 feet in elevation, and are partially surrounded by low hills, which range up to 2,250 feet in elevation. Interstate 215 (formerly known as Interstate 15E and U.S. Highway 395) is one-half mile east of Improvement District No. U-15’s east boundary and the area is served by a network of improved county streets.

History

ID No. U-15 was formed on February 16, 1972 with a bond authorization of \$500,000 for the purpose of financing local sewage collection and water distribution facilities to serve development within the Improvement District.

In 1984, the ID No. U-15 Series 1 bond sale in the amount of \$100,000 assisted in financing additions to the local water distribution and sewage collection systems (which were financed on a pay-as-you-go basis) to meet the service needs of rapid residential development within the Improvement District.

The proceeds of the Series 2 bond sale in the amount of \$400,000 (the “ID No. U-15 Bonds”) are expected to be used to support the modifications/upgrade portion of the Perris Valley Regional Wastewater Treatment Plant and Cogeneration estimated to cost \$190,000,000 at completion and used toward completion of: water improvements in Newport/Goetz/Berea Road; the Tally Road Tank; and the Pebble Beach Pipeline replacement project estimated to cost approximately \$8,700,000 at completion.

Land Use

The development of the previously agricultural lands within Improvement District No. U-15 for residential purposes is ongoing. ID No. U-15 has approximately 23 out of 373 acres, or 6.2%, of undeveloped land.

Water Account Activity

The following table sets forth ID No. U-15’s water account activity for the last four years:

**EASTERN MUNICIPAL WATER DISTRICT
WATER ACCOUNT ACTIVITY IN ACTIVE METERS
IMPROVEMENT DISTRICT NO. U-15**

	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>
<i>January</i>	920	918	912	906
<i>June</i>	916	916	912	--

Source: Water District.

Security

The ID No. U-15 Bonds are general obligations of ID No. U-15 of the Water District and are secured by the taxing power of the Water District within ID No. U-15. The Water District is obligated to levy *ad valorem* taxes on all taxable property within ID No. U-15 (without limits as to rate or amount) sufficient to pay principal and interest on the general obligation bonds of ID No. U-15 Bonds. See “GENERAL AD VALOREM PROPERTY TAX INFORMATION” herein.

Litigation Concerning the Improvement District

The Water District is not aware of any litigation which would materially adversely affect ID No. U-15.

Payment of Debt Service

The Water District intends to pay debt service on the ID No. U-15 Bonds as well as on any other outstanding bonds of ID No. U-15, from the proceeds of *ad valorem* tax levies on property within ID No. U-15. The total combined tax rate required to pay debt service all outstanding bonds of ID No. U-15, including the ID No. U-15 Bonds, is \$.045 per \$100 assessed valuation. See “IMPROVEMENT DISTRICTS BOND PAYMENT SCHEDULE” herein.

Assessed Valuations

The following is a table summarizing the 2004-05 through 2008-09 assessed valuations history in ID No. U-15.

**EASTERN MUNICIPAL WATER DISTRICT
ASSESSED VALUATION FOR FISCAL YEARS 2004-05 THROUGH 2008-09
IMPROVEMENT DISTRICT NO. U-15**

<i>Fiscal Year</i>	<i>Local Secured</i>	<i>Utility</i>	<i>Unsecured</i>	<i>Total</i>
2004-05	\$169,785,460	\$0	\$83,404	\$169,868,864
2005-06	203,398,962	0	133,412	203,532,374
2006-07	231,064,735	0	166,005	231,230,740
2007-08	256,260,566	0	520,619	256,781,185
2008-09	245,351,442	0	486,216	245,837,658

Source: California Municipal Statistics, Inc.

ID No. U-15 did not levy secured taxes for debt service on bonded indebtedness in fiscal year 2008-09.

Top Taxpayers

The 2008-09 local secured top twenty property taxpayers for ID No. U-15 are shown in the table below.

**EASTERN MUNICIPAL WATER DISTRICT
IMPROVEMENT DISTRICT NO. U-15
2008-09 LOCAL SECURED TOP TWENTY PROPERTY TAXPAYERS**

<i>Property Owner</i>	<i>Primary Land Use</i>	<i>2008-09 Assessed Valuation</i>	<i>% of Total ⁽¹⁾</i>
1. WL Homes	Residential Development	\$11,210,440	4.57%
2. Thomas R. Brown	Commercial	10,154,523	4.14
3. Sun Meadows Mobile Home Estates	Mobile Home Park	6,123,881	2.50
4. Acquiport Amsdell III	Commercial	1,519,553	0.62
5. Fiesta Terra Vista Development III	Residential Development	1,315,901	0.54
6. Denise Dinnewith	Residential	707,429	0.29
7. Eric Eugene Monteilh	Residential	594,000	0.24
8. Michael M. Cleary	Residential	512,725	0.21
9. Michael E. McCarthy	Residential	489,418	0.20
10. Bobby J. Byington	Residential	455,000	0.19
11. Lawrence Teran	Residential	377,400	0.15
12. Deutsche Bank National Trust Co.	Residential	353,000	0.14
13. Anthony J. Morocco	Residential	351,789	0.14
14. Colleen Dyck	Residential	337,000	0.14
15. Richard L. Griffis	Residential	330,000	0.13
16. Louis W. Mathews	Residential	330,000	0.13
17. Clyde Miner	Residential	326,000	0.13
18. Esther C. Caraccioli	Residential	324,198	0.13
19. Elizabeth Mary Cagne	Residential	321,000	0.13
20. Richard H. Cisneros	Residential	321,000	0.13
		<u>\$36,454,257</u>	<u>14.86%</u>

⁽¹⁾ 2008-09 Local Secured Assessed Valuation: \$245,351,442.
Source: California Municipal Statistics, Inc.

Direct and Overlapping Debt

Contained within ID No. U-15 are numerous overlapping local agencies providing public services. These local agencies have outstanding debt issued in the form of general obligation, lease revenue and special tax and assessment bonds. The direct and overlapping debt of ID No. U-15 is shown below. Tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds, and non-bonded capital lease obligations are excluded from the debt statement. The information has been provided by California Municipal Statistics, Inc. The Water District has not independently verified the information below and does not guaranty its accuracy.

**EASTERN MUNICIPAL WATER DISTRICT
IMPROVEMENT DISTRICT NO. U-15
DIRECT AND OVERLAPPING DEBT
(as of April 1, 2009)**

2008-09 Assessed Valuation: \$245,837,658

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 4/1/09</u>
Metropolitan Water District	0.011%	\$ 32,277
Eastern Municipal Water District, I.D. No. U-15	100.	- ⁽¹⁾
Perris Union High School District	2.006	1,151,690
Menifee Union School District	3.223	<u>1,466,269</u>
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$2,650,236
 <u>OVERLAPPING GENERAL FUND DEBT:</u>		
Riverside County General Fund Obligations	0.142%	\$1,098,759
Riverside County Pension Obligations	0.142	542,568
Riverside County Board of Education Certificates of Participation	0.142	11,743
Mt. San Jacinto Community College District General Fund Obligations	0.360	46,782
Perris Union High School District General Fund Obligations	2.006	667,497
Menifee Union School District Certificates of Participation	3.223	<u>222,709</u>
TOTAL GROSS OVERLAPPING GENERAL FUND DEBT		\$2,590,058
Less: Riverside County self-supporting obligations		24,053
Perris Union High School District self-supporting Qualified Zone Academy Bonds		<u>100,300</u>
TOTAL NET OVERLAPPING GENERAL FUND DEBT		\$2,465,705
 GROSS COMBINED TOTAL DEBT		 \$5,240,294 ⁽²⁾
NET COMBINED TOTAL DEBT		\$5,115,941

Ratios to 2008-09 Assessed Valuation:

Direct Debt	- %
Total Direct and Overlapping Tax and Assessment Debt	1.08%
Gross Combined Total Debt	2.13%
Net Combined Total Debt.....	2.08%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/08: \$0

(1) Excludes general obligation bonds be sold.

(2) 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.

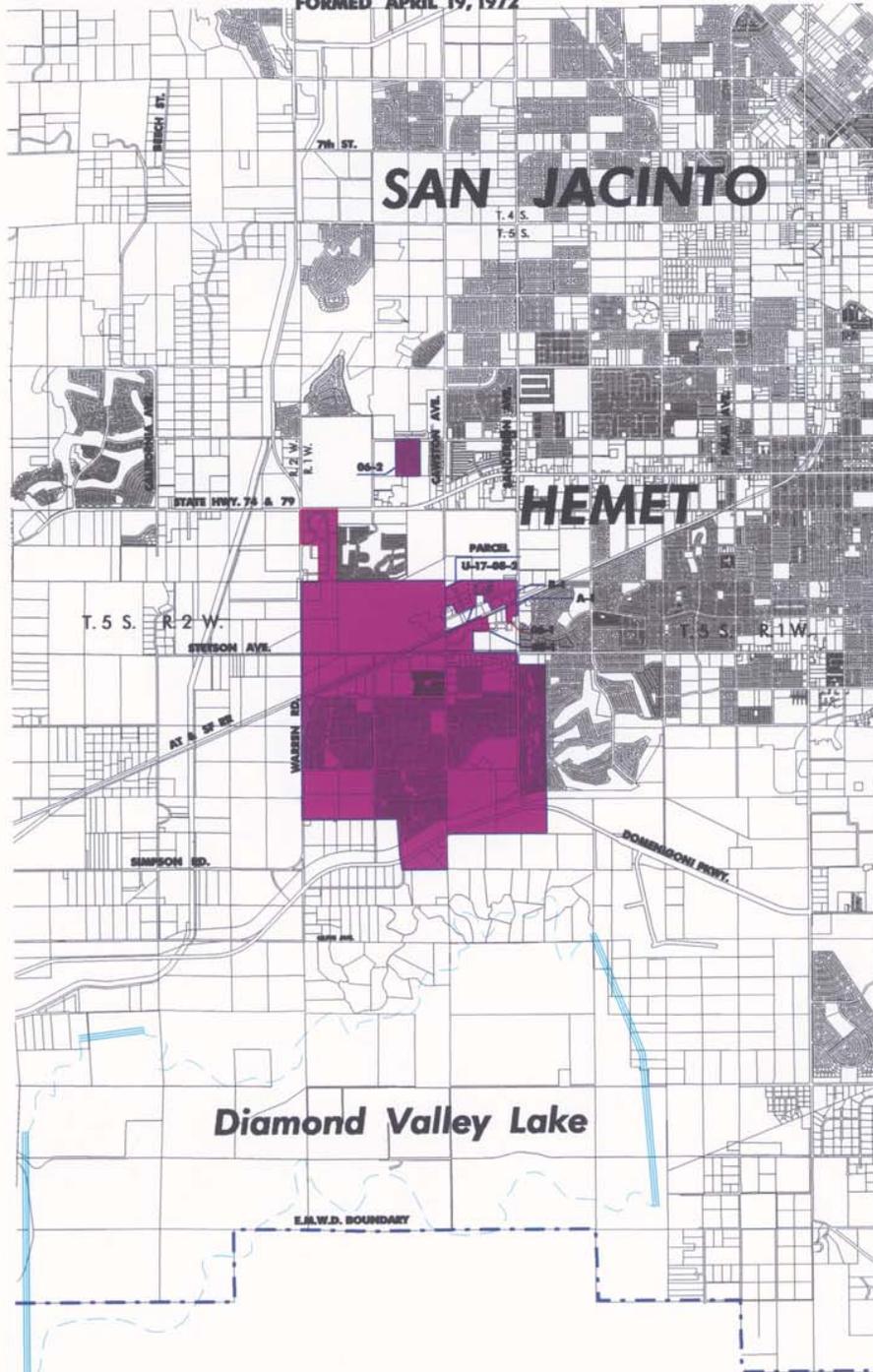
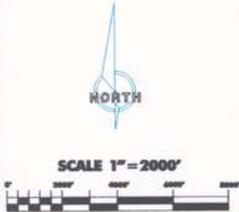
EASTERN MUNICIPAL WATER DISTRICT

RIVERSIDE COUNTY, CALIFORNIA

IMPROVEMENT DISTRICT NO. U-17

(RYAN AIRPORT AREA)

FORMED APRIL 19, 1972



REFERENCES	NO.	REVISION	INIT.	DATE	FILE HISTORY	INIT.	DATE	EASTERN MUNICIPAL WATER DISTRICT IMPROVEMENT DISTRICT BOUNDARY ID-U-17 (WATER)	D-3213 DISTRICT NO. U-17
								 <small>RIVERSIDE COUNTY, CALIFORNIA</small>	U-17

**IMPROVEMENT DISTRICT NO. U-17
(RYAN AIRPORT - WATER)**

Location

Improvement District No. U-17 (Ryan Airport - Water) (“ID No. U-17”) consists of 1,850 acres located in the Hemet-San Jacinto Valley in the northwesterly portion of the Water District. The City of Hemet contains 46% of the Improvement District’s assessed valuation and over half its land area. This does not affect the District’s provision of service. Elevations in the area range between 1,500 and 1,530 feet. Hills along the southerly boundary of the Improvement district range up to 2,180 feet in elevation. Hemet-Ryan Airport, a county airport, is located within the Improvement District. The Improvement District is bisected by the Santa Fe Railway and served by a network of improved city and county streets.

History

ID No. U-17 was formed on April 19, 1972 with a bond authorization in the amount of \$1,500,000 to finance supply and distribution system facilities to meet the area’s increasing water service requirements.

In 1973, Series 1 bonds in the amount of \$200,000 were sold to finance the District’s reimbursement to Sponsors who, under an agreement with the District, financed the original supply main serving the Improvement District and water system interties with the facilities of the Water District’s Improvement Districts Nos. 14 and 24. Additional facilities have been financed and provided on a pay- as-you-go basis. In 1984, Series 2 bond sale in the amount of \$150,000 assisted in financing additional water supply, distribution and storage facilities required to meet the needs of the area’s increasing light industrial and residential development and the continuing needs of the area’s agricultural industry.

The proceeds of the Series 3 bond sale in the amount of \$1,150,000 (the “ID No. U-17 Bonds”) are expected to be used to support various pipeline projects: East Valley pipelines; State Street Pipeline; Lyon Avenue Pipeline; and Well Rehabilitations estimated to cost \$4,000,000.

Land Use

Improvement District No. U-17 is located in the fertile Hemet-San Jacinto Valley, where excellent soils, an ample water supply, a fine climate, gentle sloping topography, the availability of public utilities and excellent highways have supported a well diversified major agricultural economy for many years.

Although agriculture is still an important part of the Improvement District’s economy, the same factors which have made it a desirable agricultural area, together with the strategic location of Hemet-Ryan Airport, and the area’s proximity to other rapidly developing parts of the Hemet-San Jacinto Valley, provide it with all the required elements for light industrial, commercial and residential development. Such development is now occurring. ID No. U-17 has approximately 245 out of 1,850 acres, or 13.2%, of undeveloped land.

Water Account Activity

The following table sets forth ID No. U-17’s water account activity for the last four years:

**EASTERN MUNICIPAL WATER DISTRICT
WATER ACCOUNT ACTIVITY IN ACTIVE METERS
IMPROVEMENT DISTRICT NO. U-17**

	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>
<i>January</i>	1,956	2,357	2,374	2,422
<i>June</i>	2,279	2,389	2,365	--

Source: Water District.

Security

The ID No. U-17 Bonds are general obligations of ID No. U-17 of the Water District and are secured by the taxing power of the Water District within ID No. U-17. The Water District is obligated to levy *ad valorem* taxes on all taxable property within ID No. U-17 (without limits as to rate or amount) sufficient to pay principal and interest on the general obligation bonds of ID No. U-17 Bonds. See “GENERAL AD VALOREM PROPERTY TAX INFORMATION” herein.

In December 1988, the County of Riverside and the Redevelopment Agency of the County of Riverside (the “Redevelopment Agency”) adopted the Redevelopment Plan for Redevelopment Project No. Airports-1988 (the “Redevelopment Plan”), which included the property within ID No. U-17. Subsequently, the Water District, the County of Riverside and the Redevelopment Agency entered into that certain Cooperative Agreement, dated as of January 9, 1991 (the “Cooperative Agreement”). Pursuant to the Cooperative Agreement, one-hundred percent (100%) of the Water District’s share of the tax increment created with respect to the Redevelopment Plan that, had there not been a redevelopment project adopted, would be allocated and paid to the Water District, shall be paid directly to the Water District.

Litigation Concerning the Improvement District

The Water District is not aware of any litigation which would materially adversely affect ID No. U-17.

Payment of Debt Service

The Water District intends to pay debt service on the ID No. U-17 Bonds as well as on any other outstanding bonds of ID No. U-17, from the proceeds of *ad valorem* tax levies on property within ID No. U-17. The total combined tax rate required to pay debt service on all outstanding bonds of ID No. U-17, including the ID No. U-17 Bonds, is \$.041 per \$100 assessed valuation. See “IMPROVEMENT DISTRICTS BOND PAYMENT SCHEDULE” herein.

Assessed Valuations

The following is a table summarizing the 2004-05 through 2008-09 assessed valuations history in ID No. U-17.

**EASTERN MUNICIPAL WATER DISTRICT
ASSESSED VALUATION FOR FISCAL YEARS 2004-05 THROUGH 2008-09
IMPROVEMENT DISTRICT NO. U-17**

<i>Fiscal Year</i>	<i>Local Secured</i>	<i>Utility</i>	<i>Unsecured</i>	<i>Total</i>
2004-05	\$330,154,826	\$104,862	\$16,342,733	\$346,602,421
2005-06	438,495,023	106,921	20,772,652	459,374,596
2006-07	643,243,351	100,145	25,079,929	668,423,425
2007-08	817,354,274	0	23,454,148	840,808,422
2008-09	763,018,605	0	36,166,399	799,185,004

Source: California Municipal Statistics, Inc.

ID No. U-17 did not levy secured taxes for debt service on bonded indebtedness in fiscal year 2008-09.

Top Taxpayers

The 2008-09 local secured top twenty property taxpayers for ID No. U-17 are shown in the table below.

**EASTERN MUNICIPAL WATER DISTRICT
IMPROVEMENT DISTRICT NO. U-17
2008-09 LOCAL SECURED TOP TWENTY PROPERTY TAXPAYERS**

<i>Property Owner</i>	<i>Primary Land Use</i>	<i>2008-09 Assessed Valuation</i>	<i>% of Total ⁽¹⁾</i>
1. Pulte Home Corp.	Residential Development	\$ 35,201,234	4.61%
2. Wal-Mart Real Estate Business Trust	Commercial	21,016,341	2.75
3. Deutsche Engineered Connecting Devices Inc.	Industrial	19,617,153	2.57
4. Riverdale Condominiums Hemet	Apartments	10,632,000	1.39
5. Ryland Homes of California Inc.	Residential Development	9,515,932	1.25
6. J & G Gosch	Auto Dealer	7,825,154	1.03
7. PRC Partners	Commercial Land	6,360,000	0.83
8. Wentworth Self Storage	Industrial	6,166,498	0.81
9. Bocarda	Auto Dealer	6,142,768	0.81
10. Steve F. Nelson	Auto Dealer	5,836,644	0.76
11. Deutsche Bank National Trust Company	Residential Properties	4,899,751	0.64
12. PSH Partners	Commercial	4,755,159	0.62
13. Creative Capital Leasing Group	Residential Development	4,260,000	0.56
14. Vam Inv.	Commercial	3,754,384	0.49
15. Wal Mart Stores Inc.	Commercial	3,522,035	0.46
16. U.S. Bank National Association	Residential Properties	3,275,000	0.43
17. HSBC Bank USA	Residential Properties	3,188,000	0.42
18. Gas Plus Hemet	Commercial	3,068,222	0.40
19. Just 4 Fun	Commercial	2,830,551	0.37
20. Herman Mathias	Residential	2,808,898	0.37
		<u>\$ 164,675,724</u>	<u>21.58%</u>

⁽¹⁾ 2008-09 Local Secured Assessed Valuation: \$763,018,605.

Source: California Municipal Statistics, Inc.

Direct and Overlapping Debt

Contained within ID No. U-17 are numerous overlapping local agencies providing public services. These local agencies have outstanding debt issued in the form of general obligation, lease revenue and special tax and assessment bonds. The direct and overlapping debt of ID No. U-17 is shown below. Tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds, and non-bonded capital lease obligations are excluded from the debt statement. The information has been provided by California Municipal Statistics, Inc. The Water District has not independently verified the information below and does not guaranty its accuracy.

**EASTERN MUNICIPAL WATER DISTRICT
IMPROVEMENT DISTRICT NO. U-17
DIRECT AND OVERLAPPING DEBT
(as of April 1, 2009)**

2008-09 Assessed Valuation⁽¹⁾: \$799,185,004

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 4/1/09</u>
Metropolitan Water District	0.004%	\$ 11,737
Eastern Municipal Water District, I.D. No. U-17	100.	- ⁽²⁾
Eastern Municipal Water District, I.D. No. 24	0.644	3,993
Eastern Municipal Water District, I.D. No. U-18	95.217	1,350,177
Hemet Unified School District	0.850	1,301,393
Hemet Unified School District Community Facilities District No. 2005-2	100.	11,650,000
Eastern Municipal Water District Community Facilities District No. 2001-02, I.A. A	100.	6,425,000
Eastern Municipal Water District Community Facilities District No. 2004-27	100.	<u>8,995,000</u>
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$29,737,300

<u>OVERLAPPING GENERAL FUND DEBT:</u>		
Riverside County General Fund Obligations	0.046%	\$ 355,936
Riverside County Pension Obligations	0.046	175,761
Riverside County Board of Education Certificates of Participation	0.046	3,804
Mt. San Jacinto Community College District General Fund Obligations	0.116	15,074
Hemet Unified School District Certificates of Participation	0.850	545,870
Valley-Wide Recreation and Park District Certificates of Participation	0.468	<u>3,229</u>
TOTAL GROSS OVERLAPPING GENERAL FUND DEBT		\$1,099,674
Less: Riverside County self-supporting obligations		7,792
Hemet Unified School District self-supporting Qualified Zone Academy Bonds		<u>4,688</u>
TOTAL NET OVERLAPPING GENERAL FUND DEBT		\$1,087,194

GROSS COMBINED TOTAL DEBT	\$30,836,974 ⁽³⁾
NET COMBINED TOTAL DEBT	\$30,824,494

Ratios to 2008-09 Assessed Valuation:

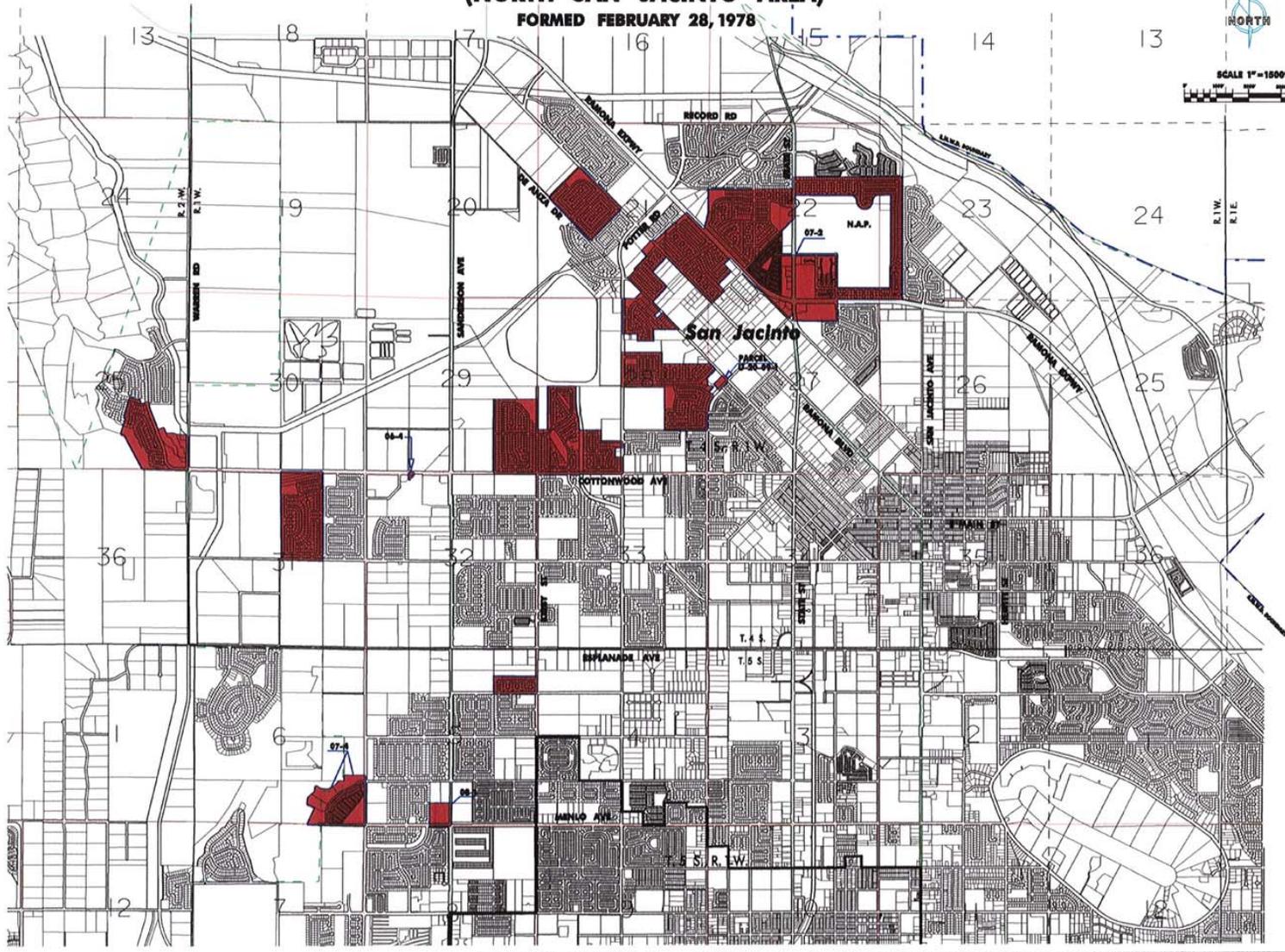
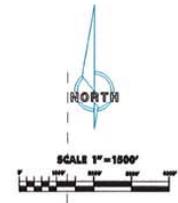
Direct Debt	- %
Total Direct and Overlapping Tax and Assessment Debt.....	3.72%
Gross Combined Total Debt.....	3.86%
Net Combined Total Debt	3.86%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/08: \$0

- (1) Includes increment valuation allocable to the Redevelopment Agency, which is subject to the Cooperative Agreement. See "— Security" above.
- (2) Excludes general obligation bonds 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.

EASTERN MUNICIPAL WATER DISTRICT
RIVERSIDE COUNTY, CALIFORNIA
IMPROVEMENT DISTRICT NO. U-20
(NORTH SAN JACINTO AREA)
FORMED FEBRUARY 28, 1978



A-39

REFERENCES	NO.	REVISION	INIT.	DATE	FILE HISTORY	INIT.	DATE
					ORIGINATED		
					FINAL CHECK		
					ACCEPTED		



EASTERN MUNICIPAL WATER DISTRICT
IMPROVEMENT DISTRICT BOUNDARY
ID-U-20 (WATER)
RIVERSIDE COUNTY, CALIFORNIA

D-4155
DISTRICT NO.

U-20

**IMPROVEMENT DISTRICT NO. U-20
(NORTH SAN JACINTO - WATER)**

Location

Improvement District No. U-20 (North San Jacinto) (“ID No. U-20”) consists of 956 acres located in the northerly part of the Hemet-San Jacinto Valley in the northeastern portion of the Water District and entirely within the City of San Jacinto. The highly developable lands within Improvement District No. U-20 range between 1,510 and 1,530 in elevation. State Highway 79 bisects the Improvement District, which surrounds the campus of Mt. San Jacinto Community College, and the area is served by a network of improved city and county streets, including the Ramona Expressway.

History

ID No. U-20 was formed on February 28, 1978 with a bond authorization of \$420,000 to finance water supply and distribution system facilities to meet the area’s increasing water service requirements.

In 1984, the Series 1 bond sale in the amount of \$100,000 assisted in financing additional water supply, distribution and storage facilities required to meet the area’s increasing water service needs. Prior to the bond sale, all ID No. U-20 water system facilities have been financed and provided on a pay-as-you-go basis.

The proceeds of the Series 2 bond sale in the amount of \$320,000 (the “ID No. U-20 Bonds”) are expected to be used to support various pipeline projects: East Valley pipelines; State Street Pipeline; Lyon Avenue Pipeline; and Well Rehabilitations estimated to cost \$4,000,000.

Land Use

In the past, agriculture was the basic land use in the area. Although agriculture is still a part of the Improvement District’s economy, the area’s location in the developing northwesterly part of the City of San Jacinto and the immediate proximity of the Mt. San Jacinto Community College, together with climate, availability and excellent highways, provide the area with all the required elements for rapid development.

Presently, development within the Improvement District includes conventional residential housing tracts and a large recreational vehicle (individually owned lot) subdivison. Commercial and diversified residential developments are being planned for the area. ID No. U-20 has approximately 33 out of 956 acres, or 3.5%, of undeveloped land.

Water Account Activity

The following table sets forth ID No. U-20’s water account activity for the last four years:

**EASTERN MUNICIPAL WATER DISTRICT
WATER ACCOUNT ACTIVITY IN ACTIVE METERS
IMPROVEMENT DISTRICT NO. U-20**

	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>
<i>January</i>	1,335	1,963	2,123	2,090
<i>June</i>	1,444	2,051	2,105	--

Source: Water District.

Security

The ID No. U-20 Bonds are general obligations of ID No. U-20 of the Water District and are secured by the taxing power of the Water District within ID No. U-20. The Water District is obligated to levy *ad valorem* taxes on all taxable property within ID No. U-20 (without limits as to rate or amount) sufficient to pay principal and interest on the general obligation bonds of ID No. U-20 Bonds. See “GENERAL AD VALOREM PROPERTY TAX INFORMATION” herein.

Litigation Concerning the Improvement District

The Water District is not aware of any litigation which would materially adversely affect ID No. U-20.

Payment of Debt Service

The Water District intends to pay debt service on the ID No. U-20 Bonds as well as on any other outstanding bonds of ID No. U-20, from the proceeds of *ad valorem* tax levies on property within ID No. U-20. The total combined tax rate required to pay debt service on all outstanding bonds of ID No. U-20, including the ID No. U-20 Bonds, is \$.018 per \$100 assessed valuation. See “IMPROVEMENT DISTRICTS BOND PAYMENT SCHEDULE” herein.

Assessed Valuations

The following is a table summarizing the 2004-05 through 2008-09 assessed valuations history in ID No. U-20.

**EASTERN MUNICIPAL WATER DISTRICT
ASSESSED VALUATION FOR FISCAL YEARS 2004-05 THROUGH 2008-09
IMPROVEMENT DISTRICT NO. U-20**

<i>Fiscal Year</i>	<i>Local Secured</i>	<i>Utility</i>	<i>Unsecured</i>	<i>Total</i>
2004-05	\$176,607,233	\$0	\$492,701	\$177,099,934
2005-06	230,562,505	0	692,020	231,254,525
2006-07	344,112,166	0	734,830	344,846,996
2007-08	611,069,823	0	1,281,880	612,351,703
2008-09	619,247,256	0	2,967,775	622,215,031

Source: California Municipal Statistics, Inc.

ID No. U-20 did not levy secured taxes for debt service on bonded indebtedness in fiscal year 2008-09.

Top Taxpayers

The 2008-09 local secured top twenty property taxpayers for ID No. U-20 are shown in the table below.

**EASTERN MUNICIPAL WATER DISTRICT
IMPROVEMENT DISTRICT NO. U-20
2008-09 LOCAL SECURED TOP TWENTY PROPERTY TAXPAYERS**

<i>Property Owner</i>	<i>Primary Land Use</i>	<i>2008-09 Assessed Valuation</i>	<i>% of Total⁽¹⁾</i>
1. PCG Peppertree	Residential Development	\$ 22,433,612	3.62%
2. Ramona State Partners	Commercial	18,658,988	3.01
3. Continental Residential Inc.	Residential Development	14,495,441	2.34
4. Shea Homes LP	Residential Development	6,795,320	1.10
5. Young California San Jacinto LP	Residential Development	6,637,115	1.07
6. KB Home Coastal Inc.	Residential Development	5,670,662	0.92
7. San Jacinto Homes 91	Residential Development	4,247,295	0.69
8. Gateway Inland	Residential Development	3,756,881	0.61
9. Empire Homes SJ 137 LP	Residential Development	3,555,913	0.57
10. Deutsche Bank Nation Trust Co.	Residential Properties	2,863,000	0.46
11. HSBC Bank USA	Residential Properties	2,778,999	0.45
12. U.S. Bank National Association	Residential Properties	2,265,500	0.37
13. Residential Model Group	Residential Development	1,908,000	0.31
14. Joe L. Navarro	Residence	1,022,000	0.17
15. Duane W. Knowles	Residence	967,716	0.16
16. Richard H. Wesselink	Commercial	964,677	0.16
17. Franciso J. Palomo	Residence	769,837	0.12
18. Juan Campos	Residence	709,320	0.11
19. Sunrise Unit I Homeowners Association	Residential Land	548,834	0.09
20. Paul Pangilinan Villar	Residence	<u>539,243</u>	<u>0.09</u>
		<u>\$101,588,353</u>	<u>16.41%</u>

⁽¹⁾ 2008-09 Local Secured Assessed Valuation: \$619,247,256
Source: California Municipal Statistics, Inc.

Direct and Overlapping Debt

Contained within ID No. U-20 are numerous overlapping local agencies providing public services. These local agencies have outstanding debt issued in the form of general obligation, lease revenue and special tax and assessment bonds. The direct and overlapping debt of ID No. U-20 is shown below. Tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds, and non-bonded capital lease obligations are excluded from the debt statement. The information has been provided by California Municipal Statistics, Inc. The Water District has not independently verified the information below and does not guaranty its accuracy.

**EASTERN MUNICIPAL WATER DISTRICT
IMPROVEMENT DISTRICT NO. U-20
DIRECT AND OVERLAPPING DEBT
(as of April 1, 2009)**

2008-09 Assessed Valuation: \$622,215,031
 Redevelopment Incremental Valuation: 35,356,521
 Adjusted Assessed Valuation: \$586,858,510

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 4/1/09</u>
Metropolitan Water District	0.032%	\$ 93,896
Eastern Municipal Water District, I.D. No. 24	4.148	25,718
Eastern Municipal Water District, I.D. No. U-5	13.095	14,274
Eastern Municipal Water District, I.D. No. U-19	98.404	448,722
Eastern Municipal Water District, I.D. No. U-20	100.	- ⁽¹⁾
Hemet Unified School District	0.435	666,007
San Jacinto Unified School District	21.133	<u>9,506,064</u>
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$10,754,681

<u>OVERLAPPING GENERAL FUND DEBT:</u>		
Riverside County General Fund Obligations	0.339%	\$ 2,623,094
Riverside County Pension Obligations	0.339	1,295,285
Riverside County Board of Education Certificates of Participation	0.339	28,035
Mt. San Jacinto Community College District General Fund Obligations	0.860	111,757
Hemet Unified School District Certificates of Participation	0.435	279,357
San Jacinto Unified School District Certificates of Participation	21.133	9,698,990
Valley-Wide Recreation and Park District Certificates of Participation	3.467	<u>23,922</u>
TOTAL GROSS OVERLAPPING GENERAL FUND DEBT		\$14,060,440
Less: Riverside County self-supporting obligations		57,423
Hemet Unified School District and Perris Union High School District self-supporting		
Qualified Zone Academy Bonds		<u>2,399</u>
TOTAL NET OVERLAPPING GENERAL FUND DEBT		\$14,000,618
GROSS COMBINED TOTAL DEBT		\$24,815,121 ⁽²⁾
NET COMBINED TOTAL DEBT		\$24,755,299

Ratios to 2008-09 Assessed Valuation:

Direct Debt - %
 Total Direct and Overlapping Tax and Assessment Debt 1.73%
 Gross Combined Total Debt 4.23%
 Net Combined Total Debt 4.22%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/08: \$0

⁽¹⁾ Excludes general obligation bonds to be sold.

⁽²⁾ 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 NO. U-22
(EAST MORENO VALLEY)**

Location

Improvement District No. U-22 (East Moreno Valley) (“ID No. U-22”) consists of 3,777 acres located in the City of Moreno Valley, south of Cactus Avenue and north of John F. Kennedy Drive, between Moreno Beach Drive and Oliver Street. State Highway 60 and several major County highways traverse the area and place the community within minutes of the City of Riverside.

History

ID No. U-22 was formed on August 3, 1988 with a bond authorization of \$15,000,000 for the purpose of financing and providing sewage collection, interceptor, treatment, disposal and water reclamation facilities and service for the portion of the Moreno Valley within its boundaries, in accordance with the Water District’s master sewer plan.

In 2005, the Series 1 bond sale in the amount of \$3,200,000 assisted in the financing of various improvements and upgrades to the Moreno Valley Regional Wastewater Treatment Plant. ID No. U-13 participated in and contributed funds to this project.

The proceeds of the Series 2 bond sale in the amount of \$2,000,000 (the “ID No. U-22 Bonds”) are expected to be used for a sludge removal project; fuel cell cogeneration project; maintenance building replacement; and other rehabilitation and upgrades estimated to cost approximately \$10,500,000.

Land Use

The area’s location, climate, coordinated development plan, availability of public utilities, excellent highways and expanding operational economy in surrounding areas have resulted in significant commercial, light industrial and residential growth within ID No. U-22. ID No. U-22 has approximately 82 out of 3,777 acres, or 2.2%, of undeveloped land.

Security

The ID No. U-22 Bonds are general obligations of ID No. U-22 of the Water District and are secured by the taxing power of the Water District within ID No. U-22. The Water District is obligated to levy *ad valorem* taxes on all taxable property within ID No. U-22 (without limits as to rate or amount) sufficient to pay principal and interest on the general obligation bonds of ID No. U-22 Bonds. See “GENERAL AD VALOREM PROPERTY TAX INFORMATION” herein.

Litigation Concerning the Improvement District

The Water District is not aware of any litigation which would materially adversely affect ID No. U-22.

Payment of Debt Service

The Water District intends to pay debt service on the ID No. U-22 Bonds from the proceeds of *ad valorem* tax levies on property within ID No. U-22. The total combined tax rate required to pay debt service on all outstanding bonds of ID No. U-22, including the ID No. U-22 Bonds, is \$.030 per \$100 assessed valuation. See “IMPROVEMENT DISTRICTS BOND PAYMENT SCHEDULE” herein.

Assessed Valuations

The following is a table summarizing the 2004-05 through 2008-09 assessed valuations history in ID No. U-22.

**EASTERN MUNICIPAL WATER DISTRICT
ASSESSSED VALUATION FOR FISCAL YEARS 2004-05 THROUGH 2008-09
IMPROVEMENT DISTRICT NO. U-22**

<i>Fiscal Year</i>	<i>Local Secured</i>	<i>Utility</i>	<i>Unsecured</i>	<i>Total</i>
2004-05	\$932,843,116	\$0	\$4,364,928	\$937,208,044
2005-06	1,533,288,662	0	8,813,982	1,542,102,644
2006-07	2,283,123,467	0	11,702,501	2,294,825,968
2007-08	2,860,093,224	0	13,472,408	2,873,565,632
2008-09	2,792,511,993	0	23,556,519	2,816,068,512

Source: California Municipal Statistics, Inc.

Tax Collections and Tax Delinquencies

The following table shows the secured taxes levied in fiscal years 2004-05 through 2008-09 to pay bonded indebtedness within ID No. U-22, and the amount and percentage of delinquent secured taxes as of June 30 of such fiscal year.

**EASTERN MUNICIPAL WATER DISTRICT
SECURED TAX LEVY AND DELINQUENCY
FOR FISCAL YEARS 2004-05 THROUGH 2008-09
IMPROVEMENT DISTRICT NO. U-22**

<i>Fiscal Year</i>	<i>Secured Tax Charge⁽¹⁾</i>	<i>Amount Delinquent June 30</i>	<i>% Delinquent June 30</i>
2004-05	\$214,130.50	\$9,792.07	4.57%
2005-06	213,737.71	18,474.23	8.64
2006-07	207,259.63	29,690.23	14.33
2007-08	198,405.93	32,390.84	16.33
2008-09	187,688.15	12,949.09 ⁽²⁾	6.90

⁽¹⁾ Levy for outstanding bonded indebtedness for ID No. 22.

⁽²⁾ Delinquency figures through May 31, 2009

Source: California Municipal Statistics, Inc. for fiscal years 2004-05 through 2007-08. Water District for fiscal year 2008-09.

Top Taxpayers

The 2008-09 local secured top twenty property taxpayers for ID No. U-22 are shown in the table below.

EASTERN MUNICIPAL WATER DISTRICT IMPROVEMENT DISTRICT NO. U-22 2008-09 LOCAL SECURED TOP TWENTY PROPERTY TAXPAYERS

<i>Property Owner</i>	<i>Primary Land Use</i>	<i>2008-09 Assessed Valuation</i>	<i>% of Total⁽¹⁾</i>
1. Broadstone at Valley View/Broadstone Vistas	Apartments	\$ 80,534,328	2.88%
2. Knickerbocker Properties Inc.	Apartments	48,450,000	1.73
3. ERP Operating LP	Apartments	35,820,666	1.28
4. Deutsche Bank National Trust Co.	Residential Properties	32,098,814	1.15
5. Stoneridge Centre Partners	Commercial	27,420,758	0.98
6. MV Homes	Residential Development	24,903,576	0.89
7. Target Corp.	Commercial	24,443,137	0.88
8. Wal Mart Real Estate Business Trust	Commercial	24,407,962	0.87
9. U.S. Bank National Association	Residential Properties	22,479,040	0.80
10. Beazer Homes Holdings Corp.	Residential Development	18,035,608	0.65
11. Kohls Dept. Stores Inc.	Commercial	14,854,216	0.53
12. Plaza at Lakeside	Commercial	13,392,576	0.48
13. Pinnacle Moreno Valley 72	Residential Development	12,127,219	0.43
14. Bank of New York	Residential Properties	11,827,713	0.42
15. HSBC Bank USA	Residential Properties	11,756,200	0.42
16. Lakeside Terrace	Commercial	11,047,020	0.40
17. Hearthstone Multi Asset Entity B	Residential Development	10,808,481	0.39
18. Moss Mo Val Properties	Commercial	9,363,596	0.34
19. Wells Fargo Bank	Residential Properties	8,441,728	0.30
20. MVPJL	Commercial	7,418,866	0.27
		<u>\$ 449,631,504</u>	<u>16.10%</u>

⁽¹⁾ 2008-09 Local Secured Assessed Valuation: \$2,792,511,993.
Source: California Municipal Statistics, Inc.

Direct and Overlapping Debt

Contained within ID No. U-22 are numerous overlapping local agencies providing public services. These local agencies have outstanding debt issued in the form of general obligation, lease revenue and special tax and assessment bonds. The direct and overlapping debt of ID No. U-22 is shown below. Tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds, and non-bonded capital lease obligations are excluded from the debt statement. The information has been provided by California Municipal Statistics, Inc. The Water District has not independently verified the information below and does not guaranty its accuracy.

**EASTERN MUNICIPAL WATER DISTRICT
IMPROVEMENT DISTRICT NO. U-22
DIRECT AND OVERLAPPING DEBT
(as of April 1, 2009)**

2008-09 Assessed Valuation: \$2,816,068,512
 Redevelopment Incremental Valuation: 240,654,211
 Adjusted Assessed Valuation: \$2,575,414,301

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 4/1/09</u>
Metropolitan Water District	0.140%	\$ 410,795
Eastern Municipal Water District, I.D. No. U-22	100.	3,028,000 ⁽¹⁾
Riverside Community College District	3.849	5,439,257
Moreno Valley Unified School District	14.909	7,121,063
Val Verde Unified School District	22.722	6,816,600
Eastern Municipal Water District Community Facilities District Nos. 2003-16, 2003-25 & 2005-40	100.	11,090,000
Moreno Valley Unified School District Community Facilities District Nos. 88, 2004-3, 2004-5 & 2004-6	81.397-100.	43,423,047
Val Verde Unified School District Community Facilities District No. 98-1	100.	28,670,000
City of Moreno Valley Community Facilities District No. 3	100.	<u>3,320,000</u>
TOTAL GROSS DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$109,318,762
Less: Moreno Valley Community Facilities District No. 3 (100% self-supporting from tax increment revenues)		<u>3,320,000</u>
TOTAL NET DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$105,998,762

<u>OVERLAPPING GENERAL FUND DEBT:</u>		
Riverside County General Fund Obligations	1.489%	\$11,521,497
Riverside County Pension Obligations	1.489	5,689,320
Riverside County Board of Education Certificates of Participation	1.489	123,140
Moreno Valley Unified School District Certificates of Participation	14.909	3,313,525
Val Verde Unified School District Certificates of Participation	22.722	22,682,237
City of Moreno Valley General Fund Obligations	23.189	<u>18,887,441</u>
TOTAL GROSS OVERLAPPING GENERAL FUND DEBT		\$62,217,160
Less: Riverside County self-supporting obligations		<u>252,219</u>
TOTAL NET OVERLAPPING GENERAL FUND DEBT		\$61,964,941

GROSS COMBINED TOTAL DEBT \$171,535,922 ⁽²⁾
 NET COMBINED TOTAL DEBT \$167,963,703

Ratios to 2008-09 Assessed Valuation:

Direct Debt (\$3,028,000)	0.11%
Total Gross Direct and Overlapping Tax and Assessment Debt	3.88%
Total Net Direct and Overlapping Tax and Assessment Debt	3.76%

Ratios to Adjusted Assessed Valuation:

Gross Combined Total Debt	6.66%
Net Combined Total Debt	6.52%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/08: \$0

⁽¹⁾ Excludes general obligation bonds to be sold.

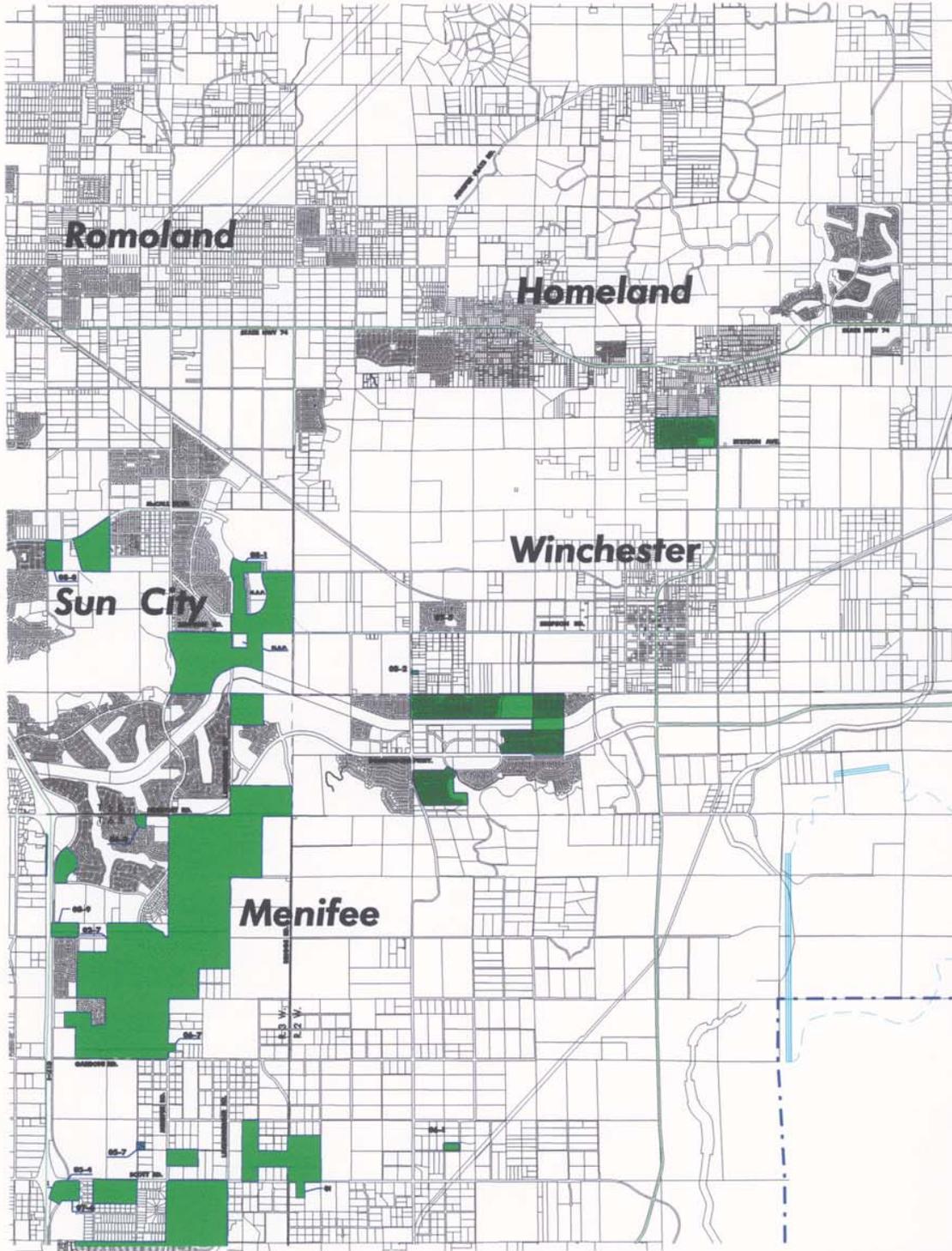
⁽²⁾ Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Source: California Municipal Statistics, Inc.

EASTERN MUNICIPAL WATER DISTRICT

RIVERSIDE COUNTY, CALIFORNIA

IMPROVEMENT DISTRICT NO. U-35



In this area, see Map "ID-U-35 West"

REFERENCES	NO.	REVISION	INIT.	DATE	FILE HISTORY	INIT.	DATE
					ORIGINATED		
					FINAL CHECK		
					ACCEPTED		

	EASTERN MUNICIPAL WATER DISTRICT IMPROVEMENT DISTRICT BOUNDARY ID-U-35 (SEWER) EAST <small>RIVERSIDE COUNTY, CALIFORNIA</small>	SD-17585 <small>DISTRICT NO.</small> U-35
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EASTERN MUNICIPAL WATER DISTRICT

RIVERSIDE COUNTY, CALIFORNIA

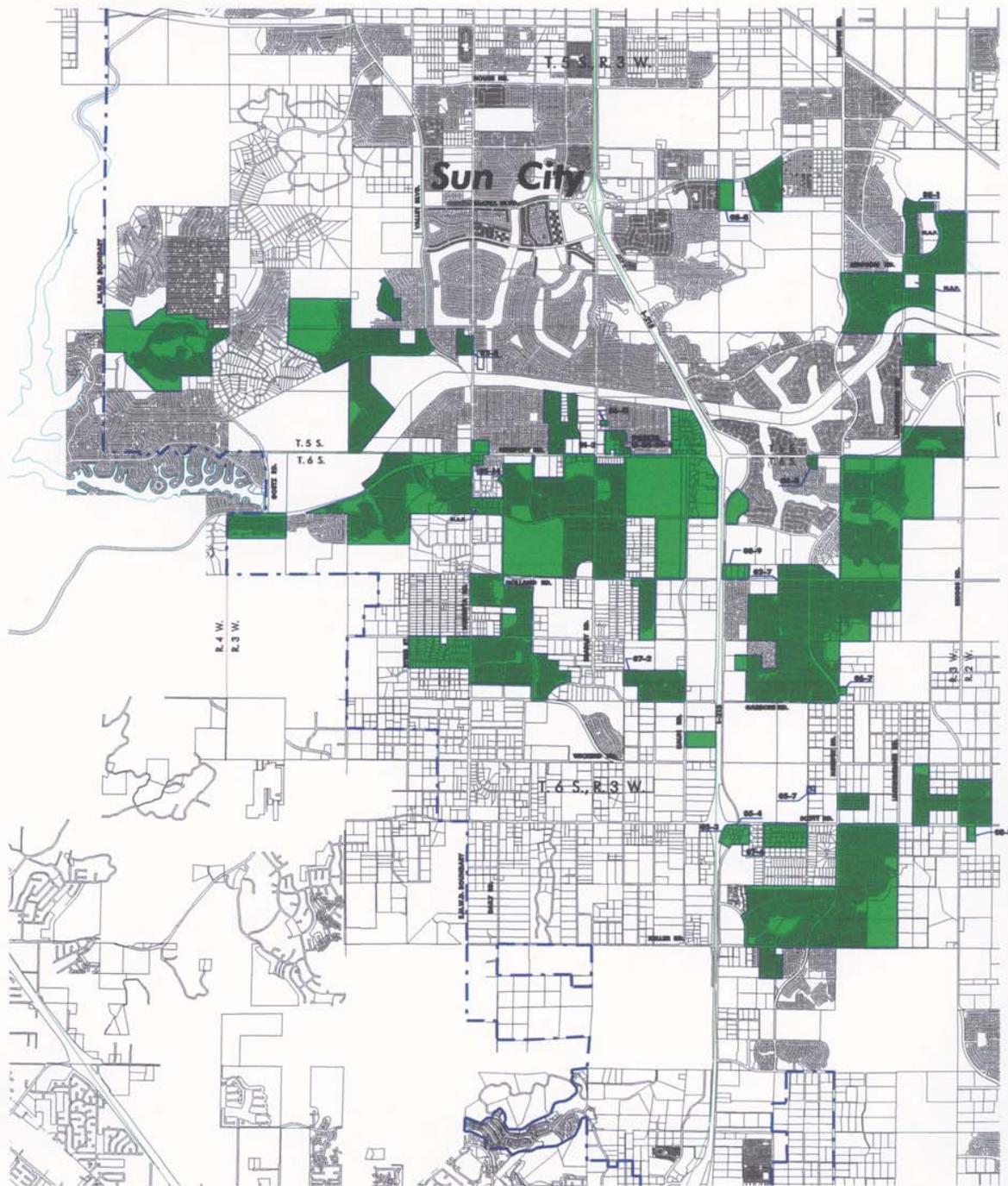
IMPROVEMENT DISTRICT NO. U-35

(SUN CITY AREA)

FORMED MAY 24, 1995



SCALE 1" = 2000'



In this area, see Map "ID-U-35 East"

REFERENCES	NO.	REVISION	INIT.	DATE	FILE HISTORY	INIT.	DATE	EASTERN MUNICIPAL WATER DISTRICT IMPROVEMENT DISTRICT BOUNDARY ID-U-35 (SEWER) WEST RIVERSIDE COUNTY, CALIFORNIA	SD-17585 DISTRICT NO. U-35

**IMPROVEMENT DISTRICT NO. U-35
(SUN CITY AREA 10 - SEWER)**

Location

Improvement District No. U-35 (Sun City Area 10 - Sewer) (“ID No. U-35”) consists of 5,326 acres located in the west central portion of the Water District within the Menifee Valley and includes surrounding lands south of Sun City. The lands within ID No. U-35 are on gentle slopes and are surrounded by low hills, ranging up to 2,250 feet in elevation. The boundaries of ID No. U-35 and ID No. U-36 (as defined herein) are coterminous.

Interstate 215 traverses ID No. U-35. The area is served by a network of county streets and roads in the recently incorporated City of Menifee.

History

ID No. U-35 was formed on June 21, 1995 with a bond authorization of \$46,200,000 for the purpose of the acquisition and construction of facilities for the collection, treatment and disposal of sewage, for the lands and inhabitants within a portion of the Water District, including all lands, easements, machinery, and other property useful and necessary for any of the foregoing.

The proceeds of the Series 1 bond sale in the amount of 9,000,000 (the “ID No. U-35 Bonds”) are expected to be used to support the modifications/upgrade portion of the Perris Valley Regional Wastewater Treatment Plant and Cogeneration estimated to cost approximately \$190,000,000 at completion.

Land Use

The development of the previously agricultural lands within ID No. U-35 for commercial and residential purposes is nearly complete. ID No. U-35 has approximately 769 out of 5,326 acres or 14.4% of undeveloped land.

Security

The ID No. U-35 Bonds are general obligations of ID No. U-35 of the Water District and are secured by the taxing power of the Water District within ID No. U-35. The Water District is obligated to levy *ad valorem* taxes on all taxable property within ID No. U-35 (without limits as to rate or amount) sufficient to pay principal and interest on the general obligation bonds of ID No. U-35 Bonds. See “GENERAL AD VALOREM PROPERTY TAX INFORMATION” herein.

Litigation Concerning the Improvement District

The Water District is not aware of any litigation which would materially adversely affect ID No. U-35.

Payment of Debt Service

The Water District intends to pay debt service on the ID No. U-35 Bonds as well as on any other outstanding bonds of ID No. U-35, from the proceeds of *ad valorem* tax levies on property within ID No. U-35. The total combined tax rate required to pay debt service on all outstanding bonds of ID No. U-35, including the ID No. U-36 Bonds, is \$.025 per \$100 assessed valuation. See “IMPROVEMENT DISTRICTS BOND PAYMENT SCHEDULE” herein.

Assessed Valuations

The following is a table summarizing the 2004-05 through 2008-09 assessed valuations history in ID No. U-35.

**EASTERN MUNICIPAL WATER DISTRICT
ASSESSED VALUATION FOR FISCAL YEARS 2004-05 THROUGH 2008-09
IMPROVEMENT DISTRICT NO. U-35**

<i>Fiscal Year</i>	<i>Local Secured</i>	<i>Utility</i>	<i>Unsecured</i>	<i>Total</i>
2004-05	\$805,765,294	\$0	\$5,949,608	\$811,714,902
2005-06	1,186,811,303	97,631	6,237,104	1,193,146,038
2006-07	2,136,386,789	97,631	9,388,876	2,145,873,296
2007-08	2,741,980,965	97,631	15,755,345	2,757,833,941
2008-09	2,665,204,895	97,631	18,326,407	2,683,628,933

Source: California Municipal Statistics, Inc.

ID No. U-35 did not levy secured taxes for debt service on bonded indebtedness in fiscal year 2008-09.

Top Taxpayers

The 2008-09 local secured top twenty property taxpayers for ID No. U-35 are shown in the table below.

EASTERN MUNICIPAL WATER DISTRICT IMPROVEMENT DISTRICT NO. U-35 2008-09 LOCAL SECURED TOP TWENTY PROPERTY TAXPAYERS

<i>Property Owner</i>	<i>Primary Land Use</i>	<i>2008-09 Assessed Valuation</i>	<i>% of Total⁽¹⁾</i>
1. Centex Homes	Residential Development	\$ 63,706,832	2.39%
2. Carrington Place Ltd.	Apartments	35,280,000	1.32
3. Capital Pacific Holdings	Residential Development	27,501,183	1.03
4. KB Home Coastal Inc.	Residential Development	22,058,085	0.83
5. Osborne Development Corp.	Residential Development	21,736,132	0.82
6. AGS Topaz	Rural/Undeveloped	21,038,853	0.79
7. Beazer Homes Holdings Corp.	Residential Development	17,961,369	0.67
8. Deutsche Bank National Trust Co.	Residential Properties	16,486,093	0.62
9. MEF Homes	Residential Development	14,834,997	0.56
10. Heritage Marketplace Murrieta	Commercial	13,994,035	0.53
11. Winchester Ranch 202	Residential Development	12,962,177	0.49
12. Richmond American Homes of California	Residential Development	12,554,677	0.47
13. K. Hovnanian Forecast Homes Inc.	Residential Development	12,196,829	0.46
14. Continental Residential Inc.	Residential Development	11,660,476	0.44
15. Meritage Homes of California	Residential Development	11,294,442	0.42
16. Hub Enterprises	Commercial	10,532,346	0.40
17. Keystone Menifee 68	Residential Development	10,428,183	0.39
18. Garbani 2005	Residential Development	8,537,818	0.32
19. Trimark Pacific Terra Bella	Residential Development	8,024,735	0.30
20. Wells Fargo Bank	Residential Properties	<u>8,012,977</u>	<u>0.30</u>
		<u>\$ 360,802,239</u>	<u>13.54%</u>

⁽¹⁾ 2008-09 Local Secured Assessed Valuation: \$2,665,204,895.
Source: California Municipal Statistics, Inc.

Direct and Overlapping Debt

Contained within ID No. U-35 are numerous overlapping local agencies providing public services. These local agencies have outstanding debt issued in the form of general obligation, lease revenue and special tax and assessment bonds. The direct and overlapping debt of ID No. U-35 is shown below. Tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds, and non-bonded capital lease obligations are excluded from the debt statement. The information has been provided by California Municipal Statistics, Inc. The Water District has not independently verified the information below and does not guaranty its accuracy.

**EASTERN MUNICIPAL WATER DISTRICT
IMPROVEMENT DISTRICT NO. U-35
DIRECT AND OVERLAPPING DEBT
(as of April 1, 2009)**

2008-09 Assessed Valuation: \$2,683,628,933
 Redevelopment Incremental Valuation: 53,390,052
 Adjusted Assessed Valuation: \$2,630,238,881

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 4/1/09</u>
Metropolitan Water District	0.143%	\$ 419,598
Eastern Municipal Water District, I.D. No. U-35	100.	-
Hemet Unified School District	0.437	669,069
Perris Union High School District	21.134	12,133,507
Menifee Union School District	33.034	15,028,462
Menifee Union School District Community Facilities Districts	41.009-100.	70,351,757
Eastern Municipal Water District Community Facilities District Nos. 2002-04, 2002-09 and 2003-19	100.	4,830,000
City of Murrieta Community Facilities District Nos. 2001-1 and 2005-1	100.	22,870,000
Riverside County Community Facilities District Nos. 86-1, 03-1 and 05-8	5.458-44.171	9,071,511
Eastern Municipal Water District, Assessment District No. 20	66.547	<u>6,588,153</u>
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$141,962,057

<u>OVERLAPPING GENERAL FUND DEBT:</u>		
Riverside County General Fund Obligations	1.520%	\$11,761,367
Riverside County Pension Obligations	1.520	5,807,768
Riverside County Board of Education Certificates of Participation	1.520	125,704
Mt. San Jacinto Community College District General Fund Obligations	3.856	501,087
Hemet Unified School District Certificates of Participation	0.437	280,641
Perris Union High School District General Fund Obligations	21.134	7,032,339
Menifee Union School District Certificates of Participation	33.034	2,282,649
City of Murrieta Certificates of Participation	3.770	610,740
Valley-Wide Recreation and Park District Certificates of Participation	6.957	<u>48,003</u>
TOTAL GROSS OVERLAPPING GENERAL FUND DEBT		\$28,450,298
Less: Riverside County self-supporting obligations		257,471
Hemet Unified School District and Perris Union High School District self-supporting Qualified Zone Academy Bonds		<u>1,059,110</u>
TOTAL NET OVERLAPPING GENERAL FUND DEBT		\$27,133,717
GROSS COMBINED TOTAL DEBT		\$170,412,355
NET COMBINED TOTAL DEBT		\$169,095,774

Ratios to 2008-09 Assessed Valuation:

Direct Debt - %
 Total Direct and Overlapping Tax and Assessment Debt 5.29%

Ratios to Adjusted Assessed Valuation

Gross Combined Total Debt 6.48%
 Net Combined Total Debt 6.43%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/08: \$0

(1) Excludes general obligation bonds be sold.

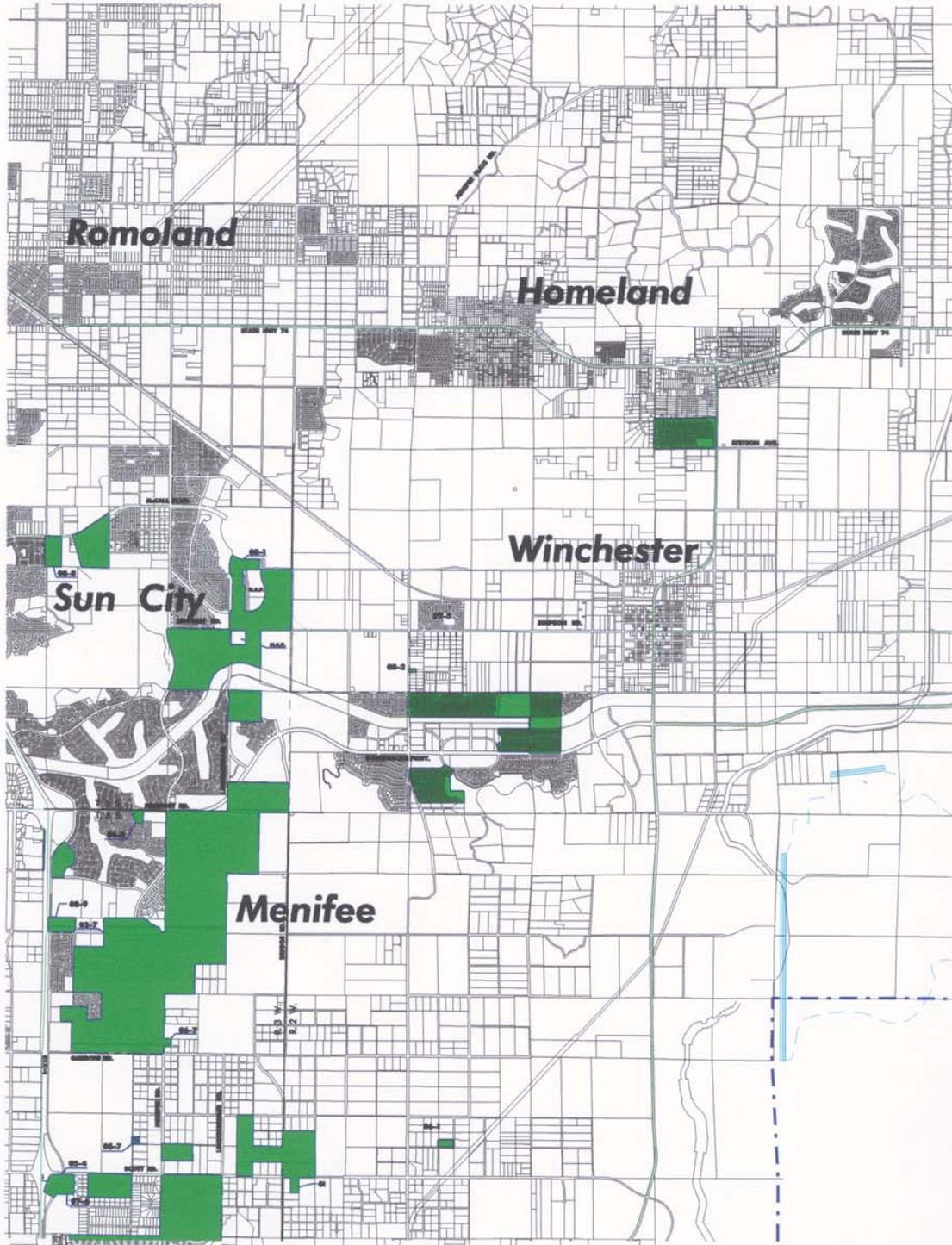
(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Source: California Municipal Statistics, Inc.

EASTERN MUNICIPAL WATER DISTRICT

RIVERSIDE COUNTY, CALIFORNIA

IMPROVEMENT DISTRICT NO. U-36



In this area, see Map "ID-U-36 West"

REFERENCES	NO.	REVISION	INIT.	DATE	FILE HISTORY	INIT.	DATE
					ORIGINATED		
					FINAL CHECK		
					ACCEPTED		



EASTERN MUNICIPAL WATER DISTRICT

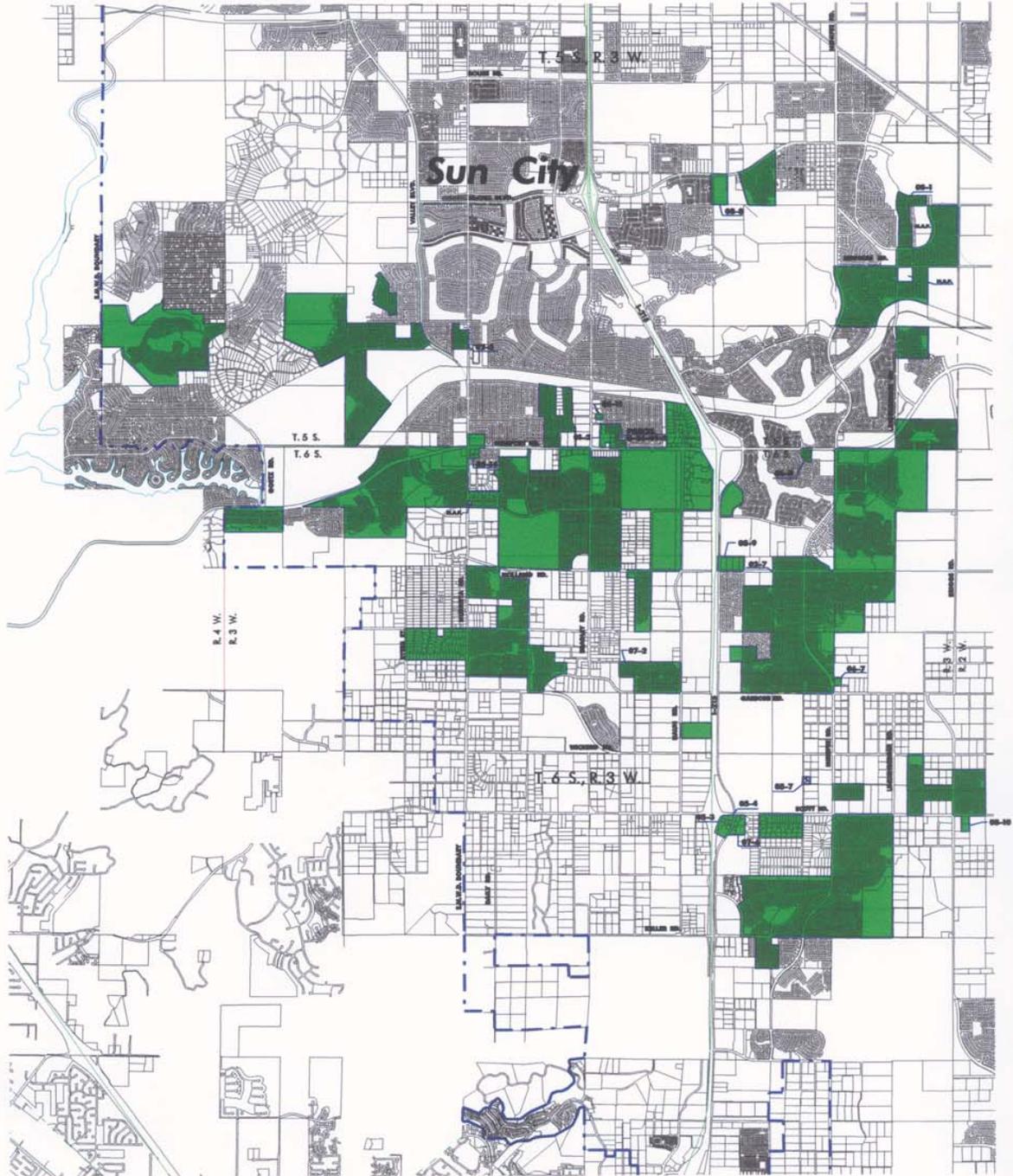
IMPROVEMENT DISTRICT BOUNDARY
ID-U-36 (WATER) EAST
 RIVERSIDE COUNTY, CALIFORNIA

D-19174
 DISTRICT NO.
U-36

EASTERN MUNICIPAL WATER DISTRICT
 RIVERSIDE COUNTY, CALIFORNIA
IMPROVEMENT DISTRICT NO. U-36
 (SUN CITY AREA)
 FORMED MAY 24, 1995



SCALE 1" = 2000'



In this area, see Map "ID-U-36 East"

REFERENCES	NO.	REVISION	INIT.	DATE	FILE HISTORY	INIT.	DATE	 EASTERN MUNICIPAL WATER DISTRICT IMPROVEMENT DISTRICT BOUNDARY ID-U-36 (WATER) WEST RIVERSIDE COUNTY, CALIFORNIA	D-15174 DISTRICT NO.
					ORIGINATED				U-36
					FINAL CHECK				
					ACCEPTED				

**IMPROVEMENT DISTRICT NO. U-36
(SUN CITY AREA 10 - WATER)**

Location

Improvement District No. U-36 (Sun City Area 10 - Water) (“ID No. U-36”) consists of 5,326 acres located in the west central portion of the Water District within the Menifee Valley and includes surrounding lands south of Sun City. The lands within ID No. U-36 are on gentle slopes and are surrounded by low hills, ranging up to 2,250 feet in elevation. The boundaries of ID No. U 35 and ID No. U 36 are coterminous.

Interstate 215 traverses ID No. U-36. The area is served by a network of county streets and roads in the recently incorporated City of Menifee.

History

ID No. U-36 was formed on June 21, 1995 with a bond authorization of \$19,700,000 for the purpose of the acquisition and construction of a waterworks system including conduits, pipelines, reservoirs, works, machinery and other property useful and necessary for any of the foregoing.

The proceeds of the Series 1 bond sale in the amount of \$9,012,000 (the “ID No. U-36 Bonds”) are expected to be used towards completion of a 36” potable water line in Lindenberger, Oleander transmission pipeline, Western Way by-pass pipeline, and other system reliability projects, estimated to cost approximately \$23,000,000.

Land Use

The development of the previously agricultural lands within ID No. U-36 for commercial and residential purposes is nearly complete. ID No. U-36 has approximately 769 out of 5,326 acres or 14.4% of undeveloped land.

Security

The ID No. U-36 Bonds are general obligations of ID No. U-36 of the Water District and are secured by the taxing power of the Water District within ID No. U-36. The Water District is obligated to levy *ad valorem* taxes on all taxable property within ID No. U-36 (without limits as to rate or amount) sufficient to pay principal and interest on the general obligation bonds of ID No. U-36 Bonds. See “GENERAL AD VALOREM PROPERTY TAX INFORMATION” herein.

Litigation Concerning the Improvement District

The Water District is not aware of any litigation which would materially adversely affect ID No. U-36.

Payment of Debt Service

The Water District intends to pay debt service on the ID No. U-36 Bonds as well as on any other outstanding bonds of ID No. U-36, from the proceeds of *ad valorem* tax levies on property within ID No. U-36. The total combined tax rate required to pay debt service on all outstanding bonds of ID No. U-36, including the ID No. U-36 Bonds, is \$.025 per \$100 assessed valuation. See “IMPROVEMENT DISTRICTS BOND PAYMENT SCHEDULE” herein.

Assessed Valuations

The following is a table summarizing the 2004-05 through 2008-09 assessed valuations history in ID No. U-36.

EASTERN MUNICIPAL WATER DISTRICT ASSESSSED VALUATION FOR FISCAL YEARS 2004-05 THROUGH 2008-09 IMPROVEMENT DISTRICT NO. U-36

<i>Fiscal Year</i>	<i>Local Secured</i>	<i>Utility</i>	<i>Unsecured</i>	<i>Total</i>
2004-05	\$805,765,294	\$0	\$5,949,608	\$811,714,902
2005-06	1,182,603,178	97,631	6,237,104	1,188,937,913
2006-07	2,132,094,502	97,631	9,388,876	2,141,581,009
2007-08	2,737,602,833	97,631	15,755,345	2,753,455,809
2008-09	2,665,204,895	97,631	18,045,170	2,683,347,696

Source: California Municipal Statistics, Inc.

ID No. U-36 did not levy secured taxes for debt service on bonded indebtedness in fiscal year 2008-09.

Top Taxpayers

The 2008-09 local secured top twenty property taxpayers for ID No. U-36 are shown in the table below.

EASTERN MUNICIPAL WATER DISTRICT IMPROVEMENT DISTRICT NO. U-36 2008-09 LOCAL SECURED TOP TWENTY PROPERTY TAXPAYERS

<i>Property Owner</i>	<i>Primary Land Use</i>	<i>2008-09 Assessed Valuation</i>	<i>% of Total⁽¹⁾</i>
1. Centex Homes	Residential Development	\$ 63,706,832	2.39%
2. Carrington Place Ltd.	Apartments	35,280,000	1.32
3. Capital Pacific Holdings	Residential Development	27,501,183	1.03
4. KB Home Coastal Inc.	Residential Development	22,058,085	0.83
5. Osborne Development Corp.	Residential Development	21,736,132	0.82
6. AGS Topaz	Rural/Undeveloped	21,038,853	0.79
7. Beazer Homes Holdings Corp.	Residential Development	17,961,369	0.67
8. Deutsche Bank National Trust Co.	Residential Properties	16,486,093	0.62
9. MEF Homes	Residential Development	14,834,997	0.56
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20. Wells Fargo Bank	Residential Properties	8,012,977	0.30
		<u>\$ 360,802,239</u>	<u>13.54%</u>

⁽¹⁾ 2008-09 Local Secured Assessed Valuation: \$2,665,204,895.

Source: California Municipal Statistics, Inc.

Direct and Overlapping Debt

Contained within ID No. U-36 are numerous overlapping local agencies providing public services. These local agencies have outstanding debt issued in the form of general obligation, lease revenue and special tax and assessment bonds. The direct and overlapping debt of ID No. U-36 is shown below. Tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds, and non-bonded capital lease obligations are excluded from the debt statement. The information has been provided by California Municipal Statistics, Inc. The Water District has not independently verified the information below and does not guaranty its accuracy.

EASTERN MUNICIPAL WATER DISTRICT IMPROVEMENT DISTRICT NO. U-36 DIRECT AND OVERLAPPING DEBT (as of April 1, 2009)

2008-09 Assessed Valuation:	\$2,683,347,696
Redevelopment Incremental Valuation:	<u>53,108,815</u>
Adjusted Assessed Valuation:	\$2,630,238,881

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 4/1/09</u>
Metropolitan Water District	0.143%	\$ 419,598
Eastern Municipal Water District, I.D. No. U-36	100.	-
Hemet Unified School District	0.437	669,069
Perris Union High School District	21.134	12,133,507
Menifee Union School District	33.034	15,028,462
Menifee Union School District Community Facilities Districts	41.009-100.	70,351,757
Eastern Municipal Water District Community Facilities District Nos. 2002-04, 2002-09 and 2003-19	100.	4,830,000
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Ratios to 2008-09 Assessed Valuation:

Direct Debt	- %
Total Direct and Overlapping Tax and Assessment Debt	5.29%

Ratios to Adjusted Assessed Valuation

Gross Combined Total Debt	6.48%
Net Combined Total Debt	6.43%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/08: \$0

(1) Excludes general obligation bonds to be sold.

(2) 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.

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APPENDIX B

EASTERN MUNICIPAL WATER DISTRICT

The information in this section concerning the operations of Eastern Municipal Water District and Eastern Municipal Water District's finances are provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the principal of or interest on the Bonds or Improvement District Bonds is payable from the General Fund of the Water District. The Bonds are payable only from amounts derived from the Improvement District Bonds and any moneys held by the Trustee under the Indenture. The Improvement District Bonds are expected to be payable only from the revenues generated by an ad valorem tax levied by the County on properties within the respective Improvement District for the payment thereof. See "SECURITY FOR AND SOURCES OF PAYMENT FOR THE BONDS."

Organization, Purpose and Powers

The Water District was organized under the Municipal Water District Law, Division 20 of the Water Code of the State of California, as amended (the "Law") on October 16, 1950 for the primary purpose of importing Colorado River water to its service area in order to augment local water supplies. The Water District's service area is primarily the westerly third of Riverside County and, prior to the Water District's creation, the local water supply was primarily groundwater wells. Presently, the Water District imports approximately 79% of its water supply from The Metropolitan Water District of Southern California ("MWD") and derives approximately 21% of its water supply from local groundwater sources. In general, the Water District annually supplies approximately 50% of the water consumed within the Water District's service area and the remainder is provided by private groundwater wells and other agencies.

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

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

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

The Law also authorizes the Water District to exercise the power of eminent domain; to levy and collect taxes; to fix, revise and collect rates or other charges for the delivery of water, use of facilities or property or provisions for service; and to fix in each fiscal year a water standby or availability charge and a sewage and wastewater service standby or availability charge on property within the boundaries of the Water District to which water and sewage and wastewater services, respectively, are made available by the Water District. The Water District may also issue bonds, borrow money and incur indebtedness. For a discussion of current and potential limitations on the Water District's ability to maintain or increase taxes, fees and other charges, including such fees and other charges as may be limited by the terms of Proposition 218, see "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES."

As authorized under the Law, the Water District has established 61 separate special improvement districts within its service area for the purpose of providing certain water and wastewater improvements for each such special improvement district and charging the costs of such improvements to each such special improvement district through *ad valorem* tax assessments levied and collected on property located within the

boundaries of each such special improvement district. Such *ad valorem* taxes levied and collected with respect to special improvement districts do not constitute revenues of the Water District's Water and Sewer System, and general obligation bonds issued by the Water District on behalf of each special improvement district constitute obligations of such special improvement district, not obligations of the Water District. In addition, the Water District provides Water and Sewer Service to retail customers located within these special improvement districts and the charges for such service constitute revenues of the Water District's Water and Sewer System.

The Water District does not presently levy any taxes other than taxes in respect of special improvement districts for repayment of general obligation bond indebtedness. However, as provided under California law, the Water District does receive its share of the county-wide one percent tax levied and collected by Riverside County, and the proceeds of such share are available, but are not required to be used, to pay Maintenance and Operation Costs of the Water and Sewer System.

The Water District is a member agency of The Metropolitan Water District of Southern California and is currently entitled to have one District representative on the MWD board.

Board of Directors, Management and Employee Relations

Board of Directors. The Water District is governed by a five-member Board of Directors (the "Board"). Directors are elected by districts for staggered four year terms.

Ronald W. Sullivan, President of the Board since January 2009, became a member of the Board in January 2003. He serves on the Executive Committee, the Operations and Engineering Committee, and the Planning Committee. He is the immediate past chair of the five-member Santa Ana Watershed Project Authority, and continues as a commissioner from the Water District. He also represents the Water District on the Association of California Water Agencies/Local Government Committee, and the Western Riverside Water and Wastewater Financing Authority. He has chaired Riverside County Planning Commission, City of Hemet Planning Commission and Riverside County Aviation Commission. He is a licensed general contractor and has over 30 years experience in real estate planning, design, development and construction. Mr. Sullivan served as state senate representative for former Senator Marian Bergeson and is an owner in Sullivan and Sullivan, Development and Consulting. His Board term expires January 2013.

Joseph J. Kuebler, Vice President of the Board since January 2009, has served as treasurer for the Board since May of 1996 and as a board member since April 2006. Mr. Kuebler is president of Kuebler, Prudhomme & Company, one of southwest Riverside County's largest CPA practices serving a large client base of companies in the real estate development, engineering, medical, retail and agricultural industries. He appointed vice chair of Region 9 of the Association of California Water Agencies ("ACWA") in December 2003. He represents the Water District on its Administrative Committee and EMWD Security Trust. On Ad Hoc board committees, he serves as a liaison with the Rancho California Water District and on the Western Riverside Water and Wastewater Financing Authority. He has represented the Water District at numerous ACWA conferences as well as other civic and industry functions. His Board term expires in January 2011.

Randy A. Record, Director, was first elected to the Board in November 2000 and took office in January 2001. Active in the farming community for more than two decades, he is a director of the Riverside County Farm Bureau and a member of the Hemet/San Jacinto Groundwater Association, the Western Growers' Association, and the California Alfalfa and Forage Association. Prior to his election to the Water District Board, he had served on several District advisory committees. He is a graduate of California Polytechnic University (Cal Poly), San Luis Obispo. His Board term expires in January 2013.

David J. Slawson, Vice President of the Board since January 2005, became a member of the Board in January 1995. He has previously served as President and Vice President. A licensed Professional Land Surveyor and registered Environmental Assessor, he is a former member of the California Department of

Consumer Affairs' Board of Registration for Professional Engineers and Land Surveyors. In local government, he was a Moreno Valley city planning commissioner. Mr. Slawson is a member of the ACWA Water Quality Committee and is President of Winchester Associates, a civil engineering and land surveying firm. His Board term expires in January 2011.

Philip E. Paule, Director, was elected to a four-year term beginning in January 2007. He has worked at various levels of government for the past two decades. Mr. Paule serves on the board's Administrative Committee, the Ad Hoc Hemet/San Jacinto Groundwater Management Plan and as a liaison with Elsinore Valley Municipal Water District. He also represents the Water District on the board of the Western Riverside Council of Governments. His Board term expires in January 2011.

The Board regularly meets on the first and third Wednesday of each month. The Board has four standing committees: Administrative, Executive, Planning, Operations/Engineering. These committees review District matters and recommend action to be taken by the Board.

Management

Anthony J. Pack, General Manager, joined the Water District in July 1990 and held several managerial positions before being promoted to his present position in September 2001. He is responsible for the daily operation of the Water District's water, wastewater, maintenance, and administrative systems. Prior to joining the Water District, Mr. Pack had over 20 years in federal government service in a variety of managerial and facility maintenance positions. He earned a Master's degree from the University of Southern California and a Bachelor of Arts degree from the University of Connecticut. Mr. Pack is past President of the California Municipal Utilities Association (CMUA) and a member of the Board of Directors of the Southern California Alliance of Public owned treatment works (SCAP). Before retiring, Mr. Pack served 20 years with the U.S. Marine Corps in posts throughout the world.

Parameshwaran Ravishanker, Deputy General Manager, joined the Water District in 1990. He is primarily responsible for assisting the General Manager in organizational management and directly oversees the Human Resources, Information Systems and Community Involvement departments. Before being promoted to his present position in 2005, Mr. Ravishanker served as Assistant General Manager of Resource Development and was responsible for heading development of cost-effective water supply strategies to increase reliability of those supplies. Mr. Ravishanker previously directed water resources planning at the Santa Ana Watershed Project Authority. He served in the California Department of Health Services as a waste management engineer and has been an international consultant for the United Nations/FAO projects in Singapore and Pakistan. He holds a Bachelor of Science degree in Civil Engineering, a Master's degree in Environmental Engineering, and received his post graduate education in Environmental Engineering and Hydrology from the University of California, Davis. Mr. Ravishanker is a registered professional engineer in the State of California.

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

Michael Luker, Assistant General Manager, Operations and Maintenance, began his career with the Water District in 1988. Mr. Luker is responsible for the maintenance, water operations, water reclamation and purchasing and contracting functions of the Water District. Mr. Luker holds degrees in microbiology (University of California Riverside) and biology (Cal Poly Pomona). Prior to joining the Water District, he

supervised quality control for a nutrient and vitamin producer and earlier served as a research chemist for a large citrus grower.

Bruce B. Mortazavi, Assistant General Manager, Resource Development, began his career with the District in 1991. Dr. Mortazavi is responsible for the resource development, conservation, water resources management, and regulatory compliance functions of the District. Prior to joining the District, he worked for several engineering consulting firms in California, and for the Santa Ana Watershed Project Authority. Dr. Mortazavi earned both a Bachelor of Science and a Master of Science degree in Civil Engineering from the California State University, San Diego. He also holds a Master of Science degree in Engineering and a Doctor of Philosophy degree in Civil Engineering from the University of California, Los Angeles. Dr. Mortazavi is a registered professional engineer in the State of California.

Charles E. Rathbone, Jr., Chief Financial Officer, has been with the Water District since 1988. Mr. Rathbone is responsible for the accounting, treasury, customer service and meter reading functions of the District. Mr. Rathbone previously served for three years as controller of a major aluminum company and is a graduate of the University of Redlands, where he obtained a Bachelor of Arts degree in Economics and Business Administration. Mr. Rathbone was a board member of the Hemet Unified School District from 1994-1998. In 2006, he was appointed by the State Controller to serve on the State Controller's Advisory Committee representing Special Districts, and was also appointed to serve on the ACWA Finance Committee representing Region 9.

Employee Relations. As of May 18, 2009, the Water District had 651 employees of which 162 are in Executive Branch, 317 are in Administration and Operations and Maintenance, 120 are in Engineering, and 52 are in Resource Development. The Water District's single bargaining unit, which includes 500 employees, is represented by the International Brotherhood of Electrical Workers Local 1436, which was voted in January 2000. Labor and management enjoy a stable, cooperative relationship, regularly working together to resolve problems of mutual interest. The Water District has never experienced a strike, slow down or work stoppage.

Defined Benefit Pension Plan. The Water District is a member of the California Public Employees' Retirement System ("PERS"), an agent multiple-employer pension system, which provides a contributory defined benefit plan for all permanent employees of the Water District. These benefit provisions and all other requirements are established by California law. On behalf of its employees, the Water District pays 7% of the employees' required contribution of 8%. The Water District, as employer, is required to contribute the remaining amounts necessary to fund PERS, using the actuarial basis specified by California law. The total pension expense of the Water District for the year ended June 30, 2008 was \$3,079,987. The Water District's assets in excess of pension benefit obligation as of June 30, 2008, were \$4,543,248. The Water District's contributions to PERS, all made in accordance with actuarially determined requirements, were approximately 9.448% of annual payroll for the fiscal year ended June 30, 2008. However, the District's effective employer contribution rate was 0% for the fiscal year ended June 30, 2008 due to prepayment of the annual contribution amount in July 2007.

Other Benefits. District employees are not members of the Federal Social Security system. However, the Water District contributes a portion of what ordinarily would be the Water District's participation of social security taxes (using a rate of 7.15% on the first \$16,500 of compensation) to a special trust fund for its employees to provide additional retirement benefits. Total contributions to this trust during the years ended June 30, 2008 and June 30, 2007 were \$765,130 and \$790,714, respectively.

Insurance Programs

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

Under this program, the Water District is responsible for all general liability claims and for developing a self-insurance reserve fund of \$1,000,000. This insurance expense is proportionately allocated among the operating funds of the Water District in an amount adequate to maintain this level of reserve.

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

Excess General Liability Insurance Coverage. Effective July 6, 2007, the Board approved excess general liability, errors and omissions, and auto liability insurance coverage, with a \$10,000,000 coverage limit. This excess coverage is combined with the Water District's Self-Insured Retention level and the auto primary coverage of \$1,000,000.

Property Appraisal and Seismic Analysis. A property appraisal and seismic analysis was performed at the Water District's five (5) wastewater reclamation facilities, the main offices, warehouse and shops, and the water storage facilities.

The property appraisal and valuation report was prepared on April 1, 1992, again on January 6, 2000, and again in February 2007, in conformity with generally accepted appraisal practices for purposes of establishing insurable values and property records. This report provides current replacement cost for structures and equipment at the above facilities in the event of a loss. A complete contents inventory was performed on December 15, 2000 and again in February 2007. The report summarizes values by location and by buildings with site maps for each facility. Construction data includes types of construction materials, square footage, fire underwriters classification, and insurable values. The Water District intends to update this report in two years.

The seismic risk and vulnerability study for the above facilities was completed September 21, 1992. Objectives of this study provided the Water District with a brief preliminary characterization of the seismic vulnerability and expected earthquake loss levels for typical major structures and equipment at the main facilities of the Water District. Additionally, it provided the tools to examine the adequacy of earthquake insurance coverage and recommendations for risk diversification and risk reduction.

Property Insurance Coverage. The Water District maintains blanket insurance coverage for its buildings and equipment, excluding earthquake and flood. All risk coverage, including earthquake, was eliminated from the Water District's insurance program consistent, in the Water District's judgment, with the Water District's covenant as to insurance contained in the Master Resolution, which covenant provides in part that the Water District is not required to procure or maintain such insurance unless such insurance is commercially available at reasonable cost. Contractors are required to provide insurance coverage during the period of construction.

District's Investment Policy

The Water District has adopted a written Statement of Investment Policy to promote its stated objectives of (i) preserving principal by mitigating both credit risk and market risk, (ii) maintaining liquidity, and (iii) providing an acceptable rate of return after first considering safety of principal and liquidity.

Under the Statement of Investment Policy, investments shall be generally consistent with the Prudent Investor Rule and are governed by certain provisions of the California Government Code. Within the limitations imposed by the California Government Code, the Water District further restricts the types of investments and their maturities. Generally, permitted investments include: United States Treasury, agency and instrumentality obligations; obligations of the State of California and its political subdivisions and local agencies; banker's acceptances; commercial paper of domestic corporations; certificates of deposits; repurchase agreements; reverse repurchase agreements; the California Local Agency Investment Fund established by the State Treasurer; time deposits; medium-term notes of corporation; mutual funds; mortgage

and consumer receivable pass-through securities; collateralized mortgage obligations; and mortgage and consumer receivable-backed certificates. Under the Statement of Investment Policy, prohibited investments include inverse floaters, indexed notes and interest-only strips that are derived from a pool of mortgages.

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

For a description of the pool of investments of the Water District as of June 30, 2008, See Note 2 to the Water District's audited financial statements for the fiscal year ended June 30, 2008 attached hereto as Appendix C — "EASTERN MUNICIPAL WATER DISTRICT'S AUDITED FINANCIAL STATEMENTS FOR YEARS ENDED JUNE 30, 2008 AND JUNE 30, 2007."

Seismic Considerations

In September 1992, Dames & Moore conducted an earthquake loss and risk screening for the Water District's main facilities. For the purposes of this report, the main facilities included: the Water District's headquarters, five reclamation facilities, and sixty steel water storage tanks. The objective of the study was to provide the Water District with a brief preliminary characterization of the seismic vulnerability and expected earthquake loss levels for typical major structures and equipment at these facilities.

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

The Water District has an Emergency Response Plan which it continues to update in coordination with MWD, Southern California MWD member agencies and other local governments. In October 1995 the Water District agreed to participate in the Riverside County Emergency Operational Area. This agreement is intended to organize the efforts of local agencies responding to a disaster and is part of the Standardized Emergency Management System ("SEMS") developed by the California Office of Emergency Services. Internally, the emergency action plan calls for specific levels of response from Water District personnel who are to follow detailed steps for field facility inspection and assessment of damages. This information is then conveyed to the Water District's Emergency Operations Center for development of response plans. The Water District Operations Staff conduct training exercises and drills on a regular basis once per year in accordance with SEMS and National Incident Management System (U.S. Department of Homeland Security) guidelines.

Currently, the Water District is participating in a Hazard Mitigation Plan, which in part gives an "Earthquake Hazard Profile." The profile includes a risk summary of probability and frequency, consequence and severity, vulnerability and a hazard risk ranking score. The Hazard Mitigation Plan was completed in October 2007, and was part of an Environmental Protection Agency grant.

Litigation

The United States, on behalf of the Marine Corps Base at Camp Pendleton, and the Fallbrook Public Utilities District have filed suit against the Water District alleging breach of a 1990 agreement (“1990 Agreement”) to discharge excess recycled water from the Water District’s Temecula Valley Wastewater Reclamation Facility that could not be used locally into the Santa Margarita River (“River”). The 1990 Agreement contemplated changes in the water quality requirements for such discharge that would allow treatment and discharge with the then existing facilities and available technology; the 1990 Agreement provided that if the Water District could not meet those requirements or if meeting the requirements would create an unreasonable financial burden, then the Water District was relieved of its obligation to discharge the excess recycled water to the River. Extensive and expensive attempts by the Water District to obtain the required Water District permit from the San Diego Regional Water Quality Control Board failed, and the Water District opted to construct a pipeline to convey its excess recycled water to the Santa Ana River because the Water District had a permit to discharge those flows to the Santa Ana River.

The lawsuit, if successful, would require the Water District to discharge its excess recycled water from the Temecula Valley Wastewater Reclamation Facility to the River or to pay money damages, presumably in an amount equal to the cost of replacing such recycled water by purchasing it from MWD, the only other available source. That approach would cost the Water District several million dollars per year to purchase such water. Alternatively, the Water District could modify the treatment process in an attempt to achieve the required levels of treatment but the lifetime cost of such a project would exceed \$230,000,000, and the Water District’s professional consultants advise that there is no assurance that technology exists to achieve that treatment on a reliable basis. The matter went to trial on April 8, 2008 in United States District Court in Los Angeles before Judge Consuelo Marshall. The bench trial was concluded on May 8, 2008 and the matter is under submission for decision by Judge Marshall.

DISTRICT SERVICE AREA

The Water District’s service area lies within the westerly third of Riverside County, encompassing 346,449 acres (541 square miles). When the Water District was annexed to MWD by the Water District’s voters in 1951, its service area consisted of 86 square miles. Growth has resulted from 95 annexations and 8 detachments of service areas ranging in area from 1 to 72,000 acres. The Water District is divided into separate regional service areas for water service and for sewer service.

Riverside County’s population increased to a total of approximately 2.1 million as of January 2009. Of the total population of Riverside County, approximately 32% live within the Water District. The Water District has a current estimated population of approximately 675,000.

For additional demographic and economic information relating to Riverside County, See APPENDIX D — “DEMOGRAPHIC INFORMATION REGARDING THE COUNTY OF RIVERSIDE AND THE WATER DISTRICT’S SERVICE AREA” herein. In the opinion of the Water District, such demographic and economic information, in general, has equal application to the Water District’s service area.

Water Supply

The Water District receives its water supply from two sources: (i) local groundwater and desalination and (ii) water imported by the Water District. The sole source of the Water District’s imported water is The Metropolitan Water District of Southern California (“MWD”). The Water District also supplies recycled water, or highly treated sewage effluent, for non-domestic purposes.

Approximately 18% of the Water District’s water supply comes from local groundwater sources with an additional 3% from desalination. Such sources are heavily dependent upon rainfall and other sources of recharge. The remaining 79% of the Water District’s water supply comes through purchases from MWD,

which in turn obtains its water supply from two primary sources: the Colorado River via the Colorado River Aqueduct and the State Water Project via the Edmund G. Brown California Aqueduct. For the fiscal year ended June 30, 2008, MWD supplied the Water District 86,707 acre-feet (“af”) of water. (Quantities of water are expressed in terms of acre feet. An acre foot is the amount of water which will cover one acre to a depth of one foot and is equivalent to 325,900 gallons, or as much as two families consume in and around their homes in one year.)

The Water District provides water service to retail customers located within the cities of Moreno Valley and Temecula and the unincorporated communities of Good Hope, Homeland, Lakeview, Nuevo, Mead Valley, Murrieta, Murrieta Hot Springs, Quail Valley, Romoland, Sun City, Valle Vista and Winchester. The Water District also supplies water on a wholesale basis to the Cities of Hemet, San Jacinto and Perris, Lake Hemet Municipal Water District, Nuevo Mutual Water Company, Western Municipal Water District, and the Department of Water Resources (collectively, the “Wholesale Customers”).

HISTORICAL FINANCIAL OPERATIONS

Operating Revenues

Water and Sewer Charges. Water and sewer rates are established by the Board and are not subject to regulation by the California Public Utilities Commission or by any other local, state or Federal agency. The Water District bills monthly utilizing a meter reading and billing system for both water and sewer service. Actual usage of agricultural users and domestic users with meters over two inches is determined monthly. Payments are due upon receipt and become delinquent after 15 calendar days from billing date. When a bill for service has become past due and a discontinuance of service notice for nonpayment has been issued, service may be discontinued if the bill is not paid within the time required by such notice. Water and sewer charges were ruled by the California Supreme Court to be considered fees or charges for purposes of Proposition 218. As a result, new or increased water and sewer rates are subject to majority protest proceedings and cannot exceed the cost of providing service. See “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES — Articles XIIC and XIID.”

The Water District’s water rates for well production (which is supplied on a wholesale basis to the Cities of Hemet and San Jacinto and Lake Hemet Municipal Water District) were \$355.25 per af for entitlement and \$365.25 per af for excess in 2008. The Water District’s wholesale rate in 2008 for imported water was \$702.00 per af for the City of Perris and the Western Municipal Water District. The Water District rate for secondary treated recycled water used for agriculture was \$34 per af and the tertiary treated recycled water used for parks and golf courses was \$263.50 per af. The Water District average sewer service rate was \$20.90 per month in fiscal year 2008. The Water District’s wholesale and retail water rates and monthly sewer service charges are the most easily adjusted source of revenue and the Board has historically changed the rate as necessary to pay for operations and capital needs not met by other revenue sources. Water and sewer rates were last approved at the January 7, 2009 Board meeting. Water rates increased an average 9.8% for water customers and 6.9% for sewer customers effective January 7, 2009, but not billed until February 7, 2009.

The following table provides a summary of the Water District's gross revenues from water and sewer service and reclaimed water for the fiscal years ended June 30, 2004 through June 30, 2008.

**WATER SALES AND SEWER SERVICE
GROSS REVENUES**

<i>Fiscal Year Ended June 30</i>	<i>Water Sales</i>	<i>Sewer Service</i>	<i>Recycled Water</i>	<i>Total</i>
2004	\$64,796,401	\$33,496,234	\$2,069,194	\$100,361,829
2005	66,258,221	39,739,370	1,498,687	107,496,278
2006	77,611,474	45,462,646	1,944,434	125,018,554
2007	92,679,789	50,318,414	2,748,328	145,746,531
2008	94,135,642	54,408,172	2,564,656	151,108,470

Source: Eastern Municipal Water District.

Non-Operating Revenues

Standby (Availability) Charges. Under the law, the Water District may levy and collect an annual water standby charge (also referred to as an availability charge), as well as an annual sewage and wastewater service standby or availability charge, on land within the boundaries of the Water District to which water and sewage and wastewater services, respectively, are made available by the Water District, whether or not the water or service is actually used. Each such charge may not exceed \$10 per acre per year for each acre (or parcel less than an acre) within the Water District, except that it may be \$30 per acre per year for each such acre or parcel if any charge in excess of \$10 per acre or parcel is used for the purposes of the particular improvement district in which the acre or parcel is located.

The law requires that standby or availability charges be approved by ordinance, which is subject to referendum, after public notice and hearing on the proposed charge. At its meeting on August 8, 2007, the Water District's Board held a public hearing and adopted a resolution setting forth its intention to levy a water standby charge and a sewage and wastewater availability charge as described above, and the charges became effective immediately.

The Water District currently levies these charges on the land within 15 of its water special improvement districts, and 16 of its sewer special improvement districts and 3 of its combined water and sewer special improvement districts, as well as a charge on land within the entire Water District. The charges for the various special improvement districts for Zone 1 (that is, areas where service is being made reasonably available, either directly by the Water District or indirectly by a city, another water district or a water company) vary from a \$1.00 to \$15.00 per acre annual water charge and a \$7.50 to \$15.00 per acre annual sewer charge. The Water District has established 61 separate special improvement districts, of which 32 are water special improvement districts, 23 are sewer special improvement districts and 6 are combined water and sewer special improvement districts.

The Water District may, under circumstances specified under the law, utilize an alternative procedure for fixing water or sewer standby or availability charges which does not limit the amount of such charges. The Water District has not utilized such procedure to date.

Standby charges are classified as assessments by the terms of Proposition 218. For a summary description of the provisions and potential effect of Proposition 218 on the Water District, see, "HISTORICAL FINANCIAL OPERATIONS – Certain Limitations on Taxes and Other Revenue Sources," below.

Connection Fees and Sewer Frontage Charges. The Water District has statutory authority to fix and impose upon the customers of the Water District one-time water and sewer connection fees and one-time water and sewer frontage changes.

Connection fees include water and sewer plant capacity charges, water and sewer back-up charges and water and sewer fees. Sewer fees are charged based on a per equivalent dwelling unit (“EDU”) basis whereas water is charged based on an equivalent meter size (“EMS”) basis. Effective July 5, 2008, the Water District’s sewer connection fee was increased to \$6,727.00 per EDU from \$4,205.00 per EDU and the Water District’s water connection fee was increased to \$3,700.00 per EMS from \$3,090.00 per EMS. However, in view of the downturn in the economy and housing market, these adopted fees have been deferred. These fees are subject to change each year based on the Engineers News Record or a study. The water frontage fee is currently \$26.20/lineal foot of front property footage where the meter connects to a 12 inch diameter main line and \$17.50/lineal foot for an 8 inch diameter main line. The sewer frontage charge is \$17.20/lineal foot of property frontage. The one-time connection fees of the Water District are budgeted by the Water District for application to its general construction fund and used to pay the costs of its capital improvements.

Prior to the approval of a project requiring sewer service, the Water District issues a “will serve” letter to the Riverside County Health Department indicating the availability of sanitary sewer service to the specific project. In the opinion of Redwine & Sherrill, the Water District’s General Counsel, the Water District would not be liable for failure to provide wastewater or sewage treatment capacity to a new development if capacity in the appropriate treatment facility is not available, notwithstanding the fact that a “will serve” letter for such service had been given with respect to that development.

Taxes. The Water District is expressly empowered under the Municipal Water District Law to levy taxes on all taxable property within its boundaries for the purpose of paying the bonded indebtedness of its special improvement districts and, subject to certain limitations in the Law, the California Revenue and Taxation Code, and the California Constitution, for other Water District purposes. The Water District currently levies taxes only to service bonds of its special improvement districts.

Only those special improvement districts receiving tax revenue at the time Proposition 13 became effective are entitled to receive a share of the one percent County general purpose property tax levy, based on the allocation procedure under California law. In the past three years the Water District has received an average of \$25,678,733 in property tax revenue. However, this was negatively impacted by the State’s diversion of \$12.6 million in 2004/05. Another \$12.6 million was diverted in 2005/06. The Water District received its full allocation in the 2006/07 and 2007/08 fiscal years, and expects to receive approximately \$30.2 million in fiscal year 2008/09.

Certain Limitations on Taxes and Other Revenue Sources

Article XIII A of the California Constitution. The taxing powers of California public agencies are limited by Article XIII A of the California Constitution, added by an initiative amendment approved by the voters on June 6, 1978, and commonly known as Proposition 13. See “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES — Article XIII A.”

Article XIII B of the California Constitution. Article XIII B of the California Constitution limits the annual appropriations of proceeds of taxes by State and local governmental entities to the amount of appropriations of the entity for the prior fiscal year, as adjusted for changes in the cost of living, changes in population and changes in services rendered by the entity. User fees and charges are considered proceeds of taxes only to the extent they exceed the reasonable costs incurred by a governmental entity in supplying the goods and services for which such fees and charges are imposed. See “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES — Article XIII B.”

Articles XIII C and XIII D of the California Constitution. Proposition 218, a state ballot initiative known as the “Right to Vote on Taxes Act,” was approved by California voters on November 5, 1996 and became effective November 6, 1996. Proposition 218 amends the California Constitution by adding Articles XIII C and XIII D to the tax limitation provisions adopted by Proposition 13 and its progeny thereby limiting the imposition of taxes, assessments, fees and charges. See “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES — Articles XIII C and XIII D.”

Historical Operating Results

The following table summarizes the Water District’s operating revenues, operating expenses and changes in net assets for the four fiscal years ended June 30, 2005 through 2008 and the eleven months ended May 31, 2009. The operating revenues, operating expenses and changes in fiscal years 2005 through 2008 are derived from the audited financial statements of the Water District, and the figures for the eleven months ended May 31, 2009 are unaudited actual figures derived by the Water District. The financial statements of the Water District for the years ended June 30, 2008 and 2007 and the report thereon of Mayer Hoffman McCann P.C. are included as Appendix C to this Official Statement.

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HISTORICAL OPERATING RESULTS
(Fiscal Year Ended June 30)
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	<i>Fiscal Year 2004/05</i>	<i>Fiscal Year 2005/06</i>	<i>Fiscal Year 2006/07</i>	<i>Fiscal Year 2007/08</i>	<i>Eleven Months Ended May 31, 2009⁽¹⁾</i>
OPERATING REVENUES:					
Water Sales	\$ 66,258,211	\$ 77,611,474	\$ 92,679,789	\$ 94,135,642	\$ 92,273,026
Sewer Service Charges	39,739,370	45,462,646	50,318,414	54,408,172	53,734,211
Recycled Water	<u>1,498,687</u>	<u>1,944,434</u>	<u>2,748,328</u>	<u>2,564,656</u>	<u>3,259,503</u>
Total Operating Revenues	\$ 107,496,278	\$ 125,018,554	\$ 145,746,531	\$ 151,108,470	\$ 149,266,740
OPERATING EXPENSES:					
Water Purchases	\$ 32,380,524	\$ 36,817,458	\$ 43,866,732	\$ 41,653,430	\$ 37,384,950
Water Operations	25,111,134	29,030,238	35,332,561	38,447,533	37,163,059
Sewer Operations	30,984,587	37,351,240	41,783,797	39,976,740	37,604,568
Recycled Water Operations ⁽²⁾	--	--	--	5,071,116	4,327,711
General and Administrative	18,418,043	21,520,070	25,292,047	30,138,792	23,088,064
Depreciation	37,572,961	40,091,319	45,255,839	51,030,538	49,479,287
Net Other Postemployment Benefit Expenses	<u>--</u>	<u>--</u>	<u>--</u>	<u>6,218,949</u>	<u>5,500,000</u>
Total Operating Expenses	\$ 144,467,249	\$ 164,810,325	\$ 191,530,976	\$ 212,537,098	\$ 194,547,639
OPERATING INCOME (LOSS)	(36,970,971)	(39,791,771)	(45,784,445)	(61,428,628)	(45,280,899)
NON-OPERATING REVENUES:					
Property Taxes – General Purpose	\$ 8,707,881	\$ 11,213,568	\$ 31,293,863	\$ 34,528,767	\$ 32,943,491
Ad Valorem Taxes – Debt Service	2,809,967	3,534,021	3,555,565	3,119,336	1,937,629
Availability Charges	4,354,591	4,518,411	4,667,297	4,868,154	5,015,076
Water and Sewer Plant Capacity Charges	35,193,109	46,465,950	23,934,829	13,520,159	7,718,606
Water and Sewer Backup Charges	32,761,006	46,056,354	26,074,793	15,496,701	7,797,526
Water and Sewer Frontage Charges	446,444	467,784	563,060	113,812	(17,718)
Water and Sewer Fees	4,044,875	6,495,184	2,321,681	1,576,015	832,824
Interest Income	13,354,263	13,545,983	28,899,522	20,128,848	16,621,193
Interest Income – Bonds	222,486	258,463	388,016	450,733	361,298
Gain on Disposal of Fixed Assets	0	69,052	76,072	6,647,392	-
Other	<u>7,693,026</u>	<u>10,738,994</u>	<u>9,245,917</u>	<u>18,482,585</u>	<u>12,890,155</u>
Total Non-Operating Revenues	\$ 109,587,648	\$ 143,363,764	\$ 131,020,615	\$ 118,932,502	\$ 86,100,081
NON-OPERATING EXPENSES:					
Interest & COP Debt	\$ 15,358,957	\$ 18,404,817	\$ 22,670,400	\$ 21,953,962	\$ 21,717,428
Interest Expense – Bonds	417,778	1,118,876	993,116	913,641	753,140
Loss on Disposal of Fixed Assets	1,049,925	0	0	0	110,756
Other	<u>3,565,913</u>	<u>3,810,186</u>	<u>5,326,040</u>	<u>5,152,903</u>	<u>6,143,902</u>
Total Non-Operating Expenses:	\$ 20,392,573	\$ 23,333,879	\$ 28,989,556	\$ 28,020,506	\$ 28,725,226
EXCESS OF REVENUE OVER EXPENSES	\$ 52,224,104	\$ 80,238,114	\$ 56,246,614	\$ 29,483,368	\$ 12,093,956
CAPITAL CONTRIBUTIONS	30,613,539	48,300,420	62,355,126	38,350,704	32,007,961
CHANGE IN NET ASSETS	82,837,643	128,538,534	118,601,740	67,834,072	44,101,917
TOTAL NET ASSETS, BEGINNING OF YEAR	991,813,116	1,074,650,759	1,203,189,293	1,321,791,033	1,389,625,105
TOTAL NET ASSETS, END OF YEAR	<u>\$1,074,650,759</u>	<u>\$1,203,189,293</u>	<u>\$1,321,791,033</u>	<u>\$1,389,625,105</u>	<u>\$1,433,727,022</u>

(1) Unaudited actual figures of the Water District from July 1, 2008 through May 31, 2009.

(2) Included in Sewer Operations in fiscal years 2004/05, 2005/06 and 2006/07.

Source: Water District.

APPENDIX C

**EASTERN MUNICIPAL WATER DISTRICT'S AUDITED FINANCIAL STATEMENTS
FOR FISCAL YEARS ENDED JUNE 30, 2008 AND JUNE 30, 2007**

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Eastern Municipal Water District

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED June 30, 2008



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

Synthetic turf, decorative rocks, California Friendly plants, and state-of-the-art irrigation devices are featured in EMWD's water efficient demonstration garden.

Photo taken by: Donna Jacomet, EMWD Public Affairs Officer



EASTERN MUNICIPAL WATER DISTRICT

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED

JUNE 30, 2008

PREPARED BY THE FINANCE DEPARTMENT

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



This photo shows water waste due to runoff. The Water Use Efficiency Ordinance allows EMWD to assess monetary penalties for such practices.

Introductory Section

Water Use Efficiency Ordinance 72.23

EMWD Ordinance 72.23 provides long-term water reliability through water use efficiency measures and stricter standards for landscape water use. To learn more about the ordinance, go to www.usewaterwisely.org



EASTERN MUNICIPAL WATER DISTRICT
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2008

Table of Contents

INTRODUCTORY SECTION

Table of Contents.....	i-ii
Letter of Transmittal.....	iii-ix
GFOA Certificate of Achievement.....	x
Service Area Map and Incorporated Cities.....	xi
District Officials.....	xii
Organizational Chart.....	xiii

FINANCIAL SECTION

Independent Auditors' Report.....	1-2
Management's Discussion and Analysis (Required Supplementary Information).....	3-11
Basic Financial Statements:	
Statement of Net Assets.....	12-13
Statement of Revenues, Expenses and Changes in Net Assets.....	14
Statement of Cash Flows.....	15-16
Notes to the Basic Financial Statements.....	17-60

SUPPLEMENTARY INFORMATION SECTION

Schedule of Revenues, Expenses and Changes in Net Assets - Actual and Budget.....	61
Notes to Supplementary Schedule.....	62-63

STATISTICAL SECTION

Statistical Section Contents.....	64
Financial Trends:	
Net Assets by Component - Last Seven Fiscal Years.....	65
Changes in Net Assets - Last Seven Fiscal Years.....	66
Revenues by Source - Last Ten Fiscal Years.....	67
Expenses by Function - Last Ten Fiscal Years.....	68

EASTERN MUNICIPAL WATER DISTRICT
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2008

Table of Contents (Continued)

STATISTICAL SECTION (Continued)

Revenue Capacity:

Water Produced and Consumed and Wastewater Treated - Last Ten Fiscal Years	69
Water and Sewer Rates - Last Ten Fiscal Years.....	70
Largest Domestic Water Customers - As of June 30, 2008.....	71
Largest Agricultural and Irrigation Water Customers - As of June 30, 2008.....	71
Largest Recycled Water Customers - As of June 30, 2008.....	72
Largest Sewer Customers - As of June 30, 2008.....	72
Summary of Imported Water Rates - Last Ten Fiscal Years	73
Annual Domestic Consumption (AF) - Last Ten Fiscal Years	74

Debt Capacity:

Ratio of Outstanding Debt by Type - Last Ten Fiscal Years.....	75
Revenue Bond Coverage - Last Ten Fiscal Years	76

Demographic and Economic:

Demographic and Economic Statistics - Last Eight Calendar Years	77
Principal Employers - Fiscal Year Ended June 30, 2008.....	77

Operating:

District Employees by Function - Last Three Fiscal Years	78
Operating and Capital Indicators - Last Six Fiscal Years	79
Customer Account Write Offs as a Percentage of Sales - Last Ten Fiscal Years	80
Bad Debt Reserves as a Percentage of Accounts Receivable Balance - Last Ten Fiscal Years.....	80



Board of Directors

October 29, 2008

President

David J. Slawson

Board of Directors
Eastern Municipal Water District
2270 Trumble Road
P.O. Box 8300
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Vice President

Ronald W. Sullivan

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Randy A. Record
Philip E. Paule

We are pleased to present the Eastern Municipal Water District's (District) Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2008.

Board Secretary

Rosemarie V. Howell

General Manager

Anthony J. Pack

Director of the

**Metropolitan Water
District of So. Calif.**
Randy A. Record

Legal Counsel

Redwine & Sherrill

This report was prepared by the District's Finance Department following guidelines set forth by the Governmental Accounting Standards Board and generally accepted accounting principles (GAAP). Responsibility for both the accuracy of the data presented and the completeness and fairness of the presentation, including all disclosures, rests with the District. We believe the data, as presented, is accurate in all material respects and that it is presented in a manner that provides a fair representation of the financial position and results of operations of the District. Included are all disclosures we believe necessary to enhance your understanding of the financial condition of the District. GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The District's MD&A can be found immediately following the report of the independent auditors.

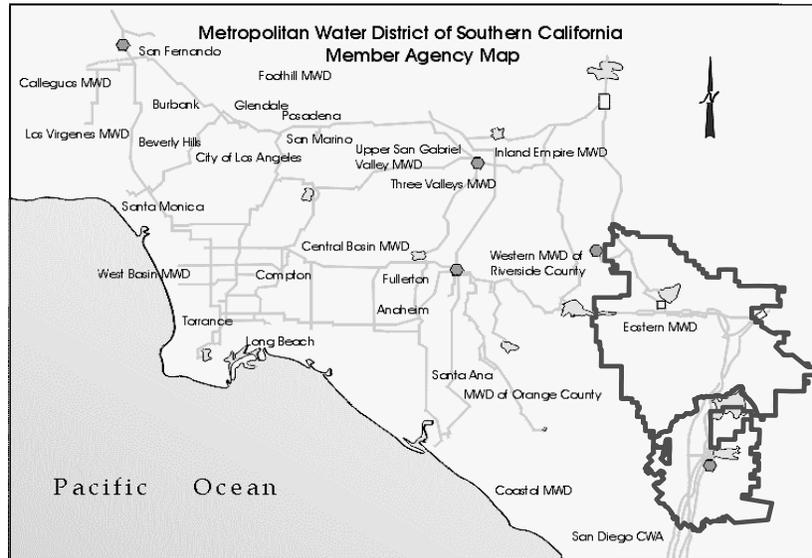
The District's financial statements have been audited by Mayer Hoffman McCann P.C., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the District for the fiscal year ended June 30, 2008, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the District's financial statements for the fiscal year ended June 30, 2008, are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

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

Reporting & Entity Profile

District's Service Area

The District's service area lies within the westerly third of Riverside County, encompassing 346,449 acres (541 square miles). The map below indicates the location of the District's service area in Riverside County. When the District was annexed to the Metropolitan Water District of Southern California (MWD) by the District's voters in 1951, its service area consisted of 86 square miles. Growth has resulted from 95 annexations and 8 detachments of service areas ranging in area from 1 to 72,000 acres. The assessed valuation has grown from \$72.0 million when formed to over \$68.1 billion for this past fiscal year.



Riverside County's population increased to a total of approximately 2.09 million as of January 2008. Of this population, the District serves approximately 675,000 (32%).

District's Authority

The District was organized under the Municipal Water District Act of 1911 (the "Law") on October 16, 1950 for the primary purpose of importing Colorado River water to its service area in order to augment local water supplies. Prior to the District's creation, the local water supply was primarily groundwater wells.

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

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

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

The Law also authorizes the District to exercise the power of eminent domain; to levy and collect taxes; to fix, revise and collect rates or other charges for the delivery of water, use of facilities or property or provisions for service; and to fix in each fiscal year a water standby or availability charge and a sewage and wastewater service standby or availability charge on land within the boundaries of the District to which water and sewage and wastewater services, respectively, are made available by the District. The District may also issue bonds, borrow money and incur indebtedness.

Governance

The District is a quasi-governmental agency of the State of California. It is not regulated by the Public Utilities Commission, but instead is governed by a Board of five directors who are publicly elected for four-year terms from comparably sized districts based on population.

The District's vision is "to provide essential services to our community at a level that exceeds the performance of any other public or private agency". Its mission is "to provide safe and reliable water and wastewater services to our community in an economical, efficient and responsible manner now, and in the future". The Board has adopted strategic goals to support the District's vision and mission.

The Board has the sole authority to set rates and charges for water and sewer services. Such rates and charges must be reasonable and cannot be put into effect until after a public hearing. The enabling legislation that created the District, in conjunction with various bond covenants, require that rates and charges be sufficient to provide for operation and maintenance costs, general expenses of the District, and debt service payments.

The District is a member of the MWD, which is a cooperative organization of 26 cities and water agencies that are responsible for providing imported water to arid southern California. The District is currently entitled to have one District representative on the MWD Board.

Water Services

The District receives its water supply from two primary sources: local groundwater; and water imported by the District. The sole source of the District's imported water is MWD.

Approximately 18% of the District's water supply comes from local groundwater sources with an additional 3% from desalination. Such sources are heavily dependent upon rainfall and other sources of recharge. The remaining 79% of the District's water supply comes through purchases from MWD, which in turn obtains its water supply from two primary sources: the Colorado River via the Colorado River Aqueduct; and the State Water Project via the Edmund G. Brown California Aqueduct.

Sewer Services

For the purposes of transmission, treatment and disposal of wastewater, the District is currently divided into five sewer service areas: Hemet-San Jacinto, Moreno Valley, Sun City, Temecula Valley, and Perris Valley. The Sun City plant has been deactivated as a cost reduction measure and all flows from this service area are treated at the larger Perris facility. Each service area is served by a single regional water reclamation facility (RWRF), for which costs and methods of treatment vary. The facilities are capable of treating 59 million gallons per day (MGD) of

wastewater and serve approximately 675,000 people. They are linked to a network of nearly 1,721 miles of pipeline and 47 active lift stations.

Recycled Water Supply

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

The District currently generates approximately 46 MGD of effluent at its four active regional water reclamation facilities. The amount of effluent is expected to grow to 52 MGD by the year 2013. Approximately 60%-70% of the effluent currently generated is the goal to be sold to agricultural and irrigation users. This past year 49% of the total recycled production was sold to customers.

Economic Conditions & Outlook

The Riverside County economy continued to slow from the rapid growth pace seen over the last few years. Due to the current housing slump, the median home price decreased approximately 36% from \$404,000 to \$260,000 over the prior year and unemployment increased 2.2% over the 2007 average. However, the District's population increased by 15,000 and assessed valuations increased by approximately 18% over 2007.

This past year, the District's service area was a major factor in the county and experienced continued growth; however, measured by the number of system hookups, this rate was at the slower pace of 58% of the prior year. System hookups during fiscal year 2008 were 4,850 for sewer and 3,340 for water. These will generate approximately 1.2 MGD of additional wastewater and require nearly 1,670 more AF of water. The current year is experiencing a continued slower pace of growth and there is a reasonable expectation that this pace will continue over the next five years. Due to the increase in available recycled water from this growth and the demand on potable water, the District is moving toward developing its recycled water system into a pressurized system. This improvement will allow municipal customers, who currently receive potable water for landscape, decorative ponds and other irrigation purposes, to substitute recycled water at nearly half the price of potable water. This in turn will make available the potable water for the residential customers.

Major Initiatives

Long Range Financial Plan

Although the growth rate has leveled, rapid growth over the past five years and the projections for the next five, have placed significant demands on the District's infrastructure, people and financial resources. Capital expenditures over the past five years have been approximately \$68 million, \$139 million, \$158 million, \$162 million and \$204 million respectively.

The District's current comprehensive Capital Improvement Financial Plan covers the period from 2009 – 2013. This plan calls for total expenditures for water, sewer and recycled water facilities of approximately \$851 million. The planned expenditures for 2008 were at \$219 million compared to the actual \$204 million.

The financing sources for these planned project expenditures will include property taxes, rates and other non-operating funds, connection fees, grants, proceeds from the sale of certificates of participation and state revolving fund loans.

Accomplishments

Operations

During the past year, the District achieved several major operational accomplishments.

Water operations improvements included:

- Continuing the expansion of the treatment capacity of the Perris Water Filtration Plant from 10 MGD to 20 MGD and converting the primary disinfection method from chlorine to a “state of the art” method using ultra violet rays. These improvements allowed the District to increase water supply reliability, decrease the regulatory compliance requirements associated with chlorine, enhance water quality, and provide facility expansion room because using ultra violet disinfection requires less space than chlorine disinfection.
- Continuing to provide laptop computers with access to electronic global interface systems maps to field personnel. This improvement should result in increased efficiency and improved customer service by providing quick and accurate information.
- Continuing to implement phases of the Derceto energy optimization program. This program works in concert with the Supervisory Control and Data Acquisition (SCADA) system to provide pump run schemes which result in energy savings by shifting usage from peak demand times to off-peak and mid-peak times without loss of required water output.

Sewer operations improvements included:

- Completion of the tertiary expansion project for the Perris Valley RWRf which increased the tertiary effluent capacity from 8 MGD to 30 MGD. This allowed the District to have redundant systems in place which increase the reliability and quality of recycled water to our customers.
- Completion of projects at the Moreno Valley RWRf to enhance recycled water delivery, including retrofitting storage ponds and internal modifications allowing for tertiary effluent distribution during periods when the facility is experiencing operational issues.
- Completion of major improvements to the Moreno Valley RWRf and Temecula Valley RWRf headworks screening to install new technology that improves removal of incoming inorganic debris to allow more efficient operation of downstream processes.
- Installation of new digester gas waste flares at the San Jacinto RWRf and Moreno Valley RWRf which enable staff to destruct excess gas in the event of issues with normal processes and also allow the District to maintain compliance with air quality requirements.

Bond Credit Rating

The District was assigned an AA credit rating in June 2004 by Fitch Ratings. Fitch cited “sound formal reserve policies and covenants ensure healthy liquidity levels”, and “the District has demonstrated the ability to manage growth pressures and achieve sound financial margins.” Standard & Poor’s Rating Services upgraded the District from an AA- rating to AA in June 2008, citing the District’s “history of solid finances, conservative financial management, and debt management”. This upgrade was significant because the District had recently issued three refunding certificate of participation series without added bond insurance. Moody’s Investors Service, Inc. has continued to assign an Aa3 rating to the District. All three rating agencies have recently affirmed these ratings with a stable outlook.

Technology

During this fiscal year, the full implementation of a “state of the art” server virtualization software project was completed, along with completion of several data storage consolidation projects. These projects brought many efficiency benefits to the District. The server virtualization project replaced operating systems and the associated data files residing on separate hardware units and turned each hardware server into a single file on the virtual server. Using server virtualization, each system uses 19% less electricity to run and requires 32% less space and therefore extends the timeline for computer-room build-out. In addition, the virtual server files can be backed up and restored within minutes to any other active physical server. The projects to consolidate data storage improved data space utilization by 43% while lowering the long term cost to support, grow and power this storage as needed.

Financial Policies

The District has formally adopted a cash reserve policy which states the purpose, source, and funding limits for each of its designated reserves within its four main funds; operating; construction; debt service; and trust. Within each of these funds are various reserves established to meet internal and/or external legal requirements. These guidelines enable restricting funds for future infrastructure needs; replacement of aging facilities; bond reserves; and various operating reserves to mitigate unexpected occurrences. These reserves are critical to the District’s financial strength and high bond rating. All three rating agencies have recently affirmed these ratings with a stable outlook.

Accounting Systems

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

Internal Controls

The District’s management is responsible for establishing and maintaining a system of internal controls designed to safeguard the District’s assets from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in accordance with generally accepted accounting principles. The internal control structure is designed to provide reasonable assurances that these objectives are met. The most recent

audits have not uncovered any weaknesses in internal control that would cause concern. However, recommendations for improvement are always welcome and are implemented where feasible.

Budgetary Controls

The District is not legally required to adopt and adhere to a budget or to present budgetary comparison information; however, the Board chooses to approve an annual budget as a management tool. The budget is developed with input from the various department levels of the organization and adopted prior to the start of each fiscal year. Monthly comparison reports of budget to actual are prepared and distributed to all department heads with top level information provided to the Board at the second Board meeting of the month. A more extensive review of the first six months and full year is also conducted to present reserves and other financial positions.

Cash Management

The District invests its temporarily idle cash in investments legally permissible by California Government Code Sections 53601 et seq., and in accordance with its own investment policy adopted by the Board of Directors. The investment objectives of the District are to first preserve the capital of the portfolio, followed by maintaining liquidity to meet cash flow requirements, and finally, maximizing the rate of return without compromising the first two objectives.

Awards & Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Eastern Municipal Water District for its comprehensive annual financial report for the fiscal year ended June 30, 2007. This was the fifth consecutive year that the District has received this prestigious award. In order to be awarded a Certificate of Achievement, the District must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

We would like to thank Lori Robinson, Controller, the entire Finance Department, staff members of other departments, and the independent accounting firm of Mayer Hoffman McCann P.C. for their efforts put into the preparation of this report. We would also like to thank the Board of Directors for their continued interest and support towards achieving excellence in financial management.

Respectfully submitted,



Anthony J. Pack
General Manager



Charles E. Rathbone, Jr.
Chief Financial Officer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Eastern Municipal Water District, California

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



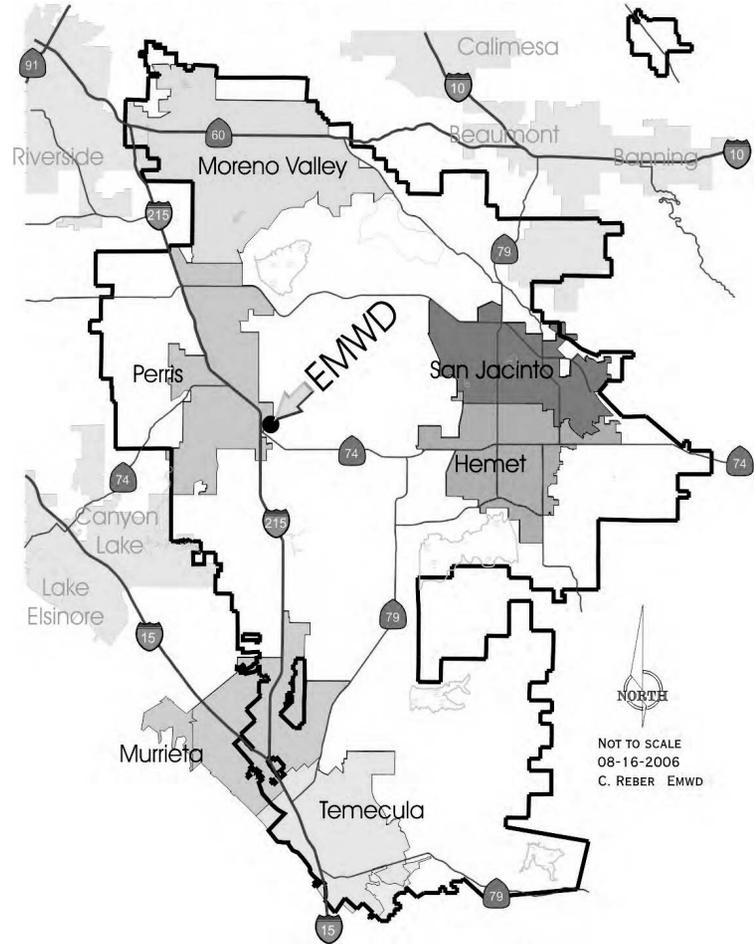
Charles S. Cox

President

Jeffrey R. Enner

Executive Director

Service Area Map and Incorporated Cities



District Officials

June 30, 2008

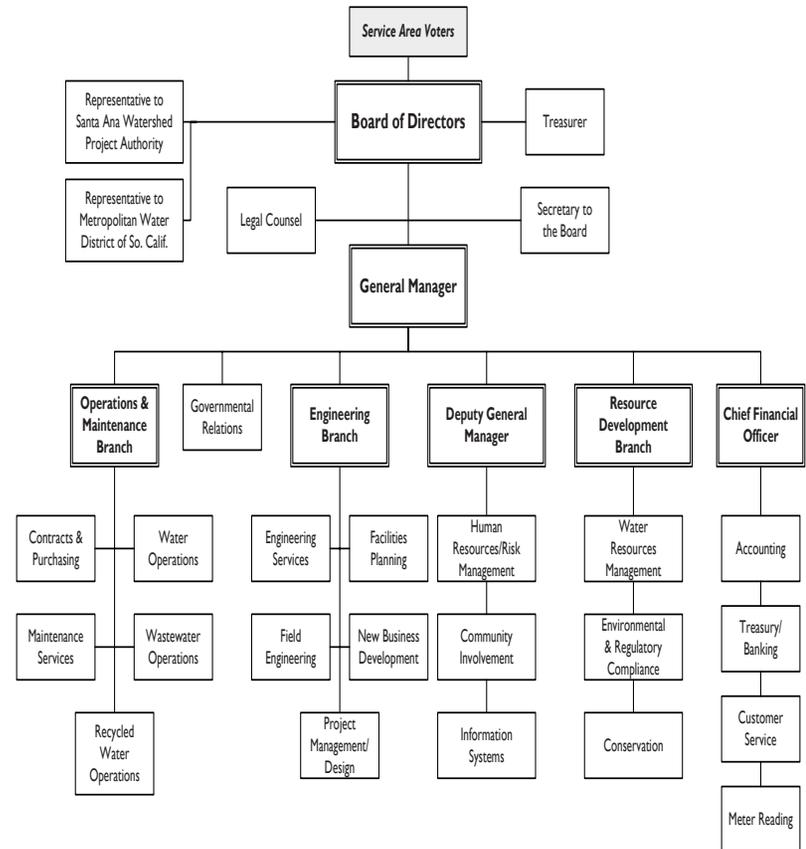
Elected Board of Directors

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

District Management

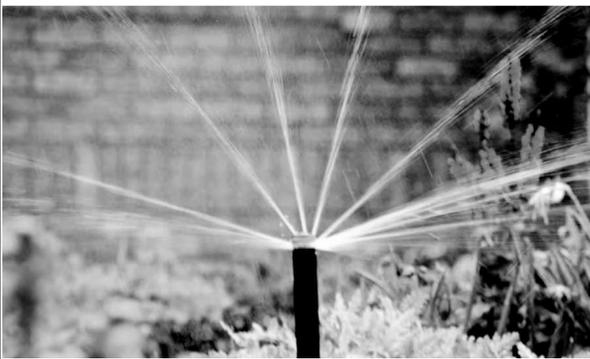
General Manager	Anthony J. Pack
Deputy General Manager	Parameshwaran Ravishanker
Assistant General Manager Operations & Maintenance	Michael A. Luker
Assistant General Manager Resource Development	Bruce B. Mortazavi
Assistant General Manager Engineering	Charles J. Bachmann
Chief Financial Officer	Charles E. Rathbone, Jr.

Organizational Chart





Synthetic turf, as showcased in EMWD's demonstration garden, closely matches the look of real grass.



New technology turns a standard sprinkler head into a precision device that irrigates the landscape using 20 percent less water.

Financial Section

EMWD Rebates

From synthetic turf to water efficient rotating landscape irrigation nozzles, EMWD offers rebates for commercial and residential customers. Go to www.mwdsaveabuck.com for information and a listing of qualifying devices.



FINANCIAL SECTION



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Board of Directors
Eastern Municipal Water District
Perris, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying statement of net assets of Eastern Municipal Water District ("the District") as of June 30, 2008, and the related statement of revenue, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information has been derived from the financial statements of the District for the year ended June 30, 2007 and, in our report dated October 1, 2007, we expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Eastern Municipal Water District as of June 30, 2008, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described further in note 8 to the basic financial statements, the District changed its method of accounting for postemployment benefits other than pensions for the fiscal year ended June 30, 2008.

The information identified in the accompanying table of contents as *management's discussion and analysis* is not a required part of the financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires with management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The introductory section, schedule of revenues, expenses and changes in net assets-actual and budget and the statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of revenues, expenses and changes in net assets-actual and budget has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2008, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Mayor Hoffman McCann P. C.

Irvine, California
October 29, 2008

Management's Discussion & Analysis

The intent of the management's discussion and analysis is to provide highlights of the Eastern Municipal Water District's financial activities for the fiscal year ended June 30, 2008. Readers are encouraged to read this section in conjunction with the accompanying financial statements.

The District's Operations – an Overview

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

Basic Financial Statements

In accordance with the Governmental Accounting Standards Board (GASB) Statement No. 34, the District's basic financial statements include a statement of net assets, statement of revenues, expenses and changes in net assets, and a statement of cash flows.

The statement of net assets includes the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). The difference between the assets and liabilities is shown as net assets. This statement also provides the basis of evaluating the capital structure of the District and assessing its liquidity and financial flexibility.

The statement of revenues, expenses and changes in net assets accounts for the current year's revenues and expenses. This statement measures the success of the District's operations over the past year and determines whether the District has recovered its costs through user fees and other charges.

The final required financial statement is the statement of cash flows. This statement reports cash receipts, cash disbursements, and net changes in cash resulting from operations and investments during the reporting period.

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

Financial Highlights

Statement of Net Assets June 30, 2008 and 2007

	2007/08	2006/07	Increase/(Decrease)	
			Amount	% Change
Assets				
Current assets	\$ 196,692,538	\$ 162,150,919	\$ 34,541,619	21.3%
Restricted assets	234,962,872	399,232,764	(164,269,892)	-41.1%
Capital assets	1,592,383,058	1,413,718,215	178,664,843	12.6%
Other assets	12,052,951	13,064,655	(1,011,704)	-7.7%
Total assets	2,036,091,419	1,988,166,553	47,924,866	2.4%
Liabilities				
Current liabilities	103,470,974	117,788,778	(14,317,804)	-12.2%
Other liabilities	56,767,007	54,156,637	2,610,370	4.8%
Long-term debt outstanding	486,228,333	494,430,105	(8,201,772)	-1.7%
Total liabilities	646,466,314	666,375,520	(19,909,206)	-3.0%
Net Assets				
Invested in capital assets, net of related debt	1,097,667,937	963,472,752	134,195,185	13.9%
Restricted for debt service/covenants	56,443,385	57,377,104	(933,719)	-1.6%
Restricted for construction	133,617,326	238,268,776	(104,651,450)	-43.9%
Unrestricted	101,896,457	62,672,401	39,224,056	62.6%
Total net assets	\$1,389,625,105	\$1,321,791,033	\$ 67,834,072	5.1%
Liabilities to assets ratio	32%	34%		

Changes in Financial Condition of the District

The liabilities to assets ratio, which indicates the degree to which the District's assets are financed through borrowing and other obligations decreased slightly due to scheduled debt payments. Total net assets increased \$67.8 million. Overall, the financial position of the District has improved for the fiscal year ended June 30, 2008 and remains strong.

The following denotes explanations for some of the major changes between fiscal years, as shown in the above table:

- Current assets increased by \$34.5 million primarily due to an increase in cash of \$31.9 million used to finance District construction projects.
- Restricted assets decreased by \$164.3 million primarily due to a decrease in construction cash of \$164.8 million used to finance District construction projects.
- Capital assets increased by \$178.7 million primarily due to an increase of operating assets being added to the system totaling \$135.0 million; a net increase to construction in progress of \$110.6 million; a net increase in accumulated depreciation totaling \$49.0 million; and sales of assets and transfers to another agency totaling approximately \$17.9 million.
- Other assets decreased by \$1.0 million mainly due to decreases of \$0.5 million each in prepaid PERS liability and unamortized debt issuance costs relating to scheduled amortization.
- Current liabilities decreased by \$14.3 million primarily due to decreases in accounts payable of \$7.6 million; accrued interest payable of \$1.9 million; current portion of certificates of participation payable of \$3.0 million; and other payables of \$2.8 million.
- Other liabilities increased by a net of \$2.6 million primarily due to a \$4.1 million decrease in advances for construction, notes and assessments from scheduled debt payments; an increase of \$0.5 million in compensated absences; and \$6.2 million of net postemployment benefits obligation recorded for the first time this fiscal year.
- Long-term debt outstanding decreased \$8.2 million primarily due to \$3.6 million in COP and GO bond payments that are due in the 2008/2009 year; and an increase of \$4.6 million in unamortized premium/discount and deferred charges relating to refunded certificates of participation. Also see Note 5 to the basic financial statements regarding debt payments and outstanding balances.
- The District's net assets increased \$67.8 million, or 5.1% over the prior year. This can be attributed to a net non-operating income of \$90.9 million offset by a net operating loss of \$61.4 million plus contributed capital from developers totaling \$38.4 million for the year. Further information regarding restrictions and commitments associated with net assets can be identified in Notes 9 and 11 to the basic financial statements.

Revenues, Expenses and Changes in Net Assets
For the Fiscal Years Ended June 30, 2008 and 2007

	2007/08		2006/07		Increase/(Decrease)	
	Amount	% of Total	Amount	% of Total	Amount	% Change
Operating revenues:						
Water sales – domestic	\$ 91,864,344	60.8%	\$ 91,596,156	62.8%	\$ 268,188	0.3%
Water sales – irrigation	2,271,298	1.5%	1,083,633	0.7%	1,187,665	109.6%
Sewer service charges	54,408,172	36.0%	50,318,414	34.6%	4,089,758	8.1%
Recycled water	2,564,656	1.7%	2,748,328	1.9%	(183,672)	-6.7%
Total operating revenues	151,108,470	100.0%	145,746,531	100.0%	5,361,939	3.7%
Non-operating revenues:						
Property taxes – general levy	34,528,767	29.0%	31,293,863	23.1%	3,234,904	10.3%
Property taxes – bond levy	3,119,336	2.6%	3,555,565	2.6%	(436,229)	-12.3%
Standby charges	4,868,154	4.1%	4,667,297	3.4%	200,857	4.3%
Water and sewer connection fees	30,706,687	25.8%	52,894,363	39.0%	(22,187,676)	-41.9%
Interest – operations and restricted funds	18,912,314	15.9%	23,578,130	17.4%	(4,665,816)	-19.8%
Interest – bond funds	450,733	0.4%	388,016	0.3%	62,717	16.2%
Gain on disposal of fixed assets	6,647,392	5.6%	76,072	0.1%	6,571,320	8638.3%
Net increase (decrease) in fair value of investments	1,216,534	1.0%	5,321,392	3.9%	(4,104,858)	-77.1%
Grant revenues	11,261,996	9.5%	4,598,769	3.4%	6,663,227	144.9%
Other revenues	7,220,589	6.1%	9,245,917	6.8%	(2,025,328)	-21.9%
Total non-operating revenues	118,932,502	100.0%	135,619,384	100.0%	(16,686,882)	-12.3%
Total revenues	270,040,972		281,365,915		(11,324,943)	-4.0%
Operating expenses:						
Purchased water	41,653,430	19.6%	43,866,732	23.0%	(2,213,302)	-5.0%
Water operations	38,447,533	18.1%	35,332,561	18.4%	3,114,972	8.8%
Sewer operations	39,976,740	18.8%	37,404,662	19.5%	2,572,078	6.9%
Recycled water operations	5,071,116	2.4%	4,379,135	2.3%	691,981	15.8%
General and administrative	30,138,792	14.2%	25,292,047	13.2%	4,846,745	19.2%
Depreciation & amortization	51,030,538	24.0%	45,255,839	23.6%	5,774,699	12.8%
Net other postemployment benefits	6,218,949	2.9%	-	0.0%	6,218,949	100.0%
Total operating expenses	212,537,098	100.0%	191,530,976	100.0%	21,006,122	11.0%
Non-operating expenses:						
Interest – certificates of participation	21,953,962	78.3%	22,670,400	78.2%	(716,438)	-3.2%
Interest – bond	913,641	3.3%	993,116	3.4%	(79,475)	-8.0%
Interest – other	547,805	2.0%	497,555	1.7%	50,250	10.1%
Bond service fees	97,289	0.3%	97,902	0.3%	(613)	-0.6%
Other expenses	4,507,809	16.1%	4,730,583	16.3%	(222,774)	-4.7%
Total non-operating expenses	28,020,506	100.0%	28,989,556	100.0%	(969,050)	-3.3%
Total expenses	240,557,604		220,520,532		20,037,072	9.1%
Income before contributions	29,483,368		60,845,383		(31,362,015)	-51.5%
Capital contributions	38,350,704		57,756,357		(19,405,653)	-33.6%
Change in net assets	67,834,072		118,601,740		(50,767,668)	-42.8%
Total net assets at beginning of year	1,321,791,033		1,203,189,293		118,601,740	9.9%
Total net assets at end of year	\$1,389,625,105		\$1,321,791,033		\$ 67,834,072	5.1%

The following denotes explanations for some of the major changes between fiscal years as shown in the previous table.

Revenues – Combined revenues for the fiscal year totaled \$270.0 million compared to a prior year of \$281.4 million. This is a decrease of approximately 4.0%. The table on page 6 presents a comparison of revenues by major source for the two fiscal years 2007/08 and 2006/07.

Expenses – Combined expenses for the fiscal year totaled \$240.6 million compared to a prior year of \$220.5 million. This is an increase of approximately 9.1%. The table on page 6 presents a comparison of expenses by category for the two fiscal years 2007/08 and 2006/07.

Water sales – Total sales increased approximately \$1.5 million (1.6%) over the previous year's total to end at \$92.7 million. This is primarily attributed to an 11.8% average increase in water rates that was implemented on billings beginning February 9, 2008. (See water purchases.)

Sewer service - Wastewater service charges increased by \$4.1 million (8.1%) over the previous year's total to end at \$54.4 million. This is primarily attributed to the 4,850 additional customer hook-ups and a monthly sewer rate increase of approximately 6.0% on average, implemented on billings beginning February 9, 2008.

Property taxes – The District's general property tax revenue increased by \$3.2 million (10.3%) mainly due to an increase in assessed valuations of nearly 17.8% over the prior year.

Connection fees – These revenues decreased over the prior year due to a downturn in the housing development market. Sewer hookups were 4,850 compared to a prior year of 8,475 representing a decrease of 42.8% and water hookups were 3,340 compared to a prior year of 5,757 representing a decrease of 42.0%. This resulted in revenue of \$22.2 million (41.9%) lower than the previous year.

Interest earnings – The current fiscal year's interest earnings was lower by \$4.7 million (19.8%) compared to the prior years, due to improved yields on investments averaging 4.53% for the year compared to 4.13% last fiscal year, but offset by a lower average portfolio balance.

Gain on disposal of fixed assets – The \$6.6 million net gain for the current year mainly related to a gain of \$7.4 million on the sale of 57 acres of land and a gain of \$1.6 million on the sale of capacity rights relating to the brine conveyance pipeline and processing systems; offset by a \$2.4 million write-off of a software replacement project.

Grant revenues – The \$11.3 million of revenues for the current year was primarily related to \$8.5 million from the State of California Department of Water Resources (DWR) for the Perris Water Filtration Plant Expansion project; \$1.7 million from the State of California Water Resources Control Board for the Reach 16 Recycled Water Pipeline project; and \$1.1 million from the Santa Ana Watershed Project Authority for the Perris Desalter project. \$4.0 million of the \$4.6 million received in the prior year were from the DWR for the Temecula Valley Effluent Pipeline project.

Water purchases – Water sales volume decreased by 4,068 acre feet (AF) of water, and purchased water from our wholesale provider, the Metropolitan Water District (MWD), decreased by 4,947 AF. This decrease of water purchased plus an increase in the cost of water of \$30/AF for Tier 1 and \$32/AF for Tier 2 were the primary factors for the net decrease of \$2.2 million.

Water operations – The increase in expenses of \$3.1 million is mainly a result of added treatment costs of \$1.4 million and an increase in labor and support costs of \$1.5 million.

Sewer operations – The increase in flows requiring treatment due to growth increased from nearly 46.0 million gallons per day (MGD) in 2006/07 to nearly 46.2 MGD in 2007/08. This increase coupled with higher wages, benefits, materials, and services resulted in the \$2.6 million increase.

General and administrative – The \$4.8 million increase is mainly due to the benefit costs associated with the authorization of an additional 33 employees to staff added facilities and maintain a high level of customer service. In addition, the District had increased expenses for legal fees relating to an ongoing lawsuit.

Depreciation expense – The District capitalized \$135.0 million in depreciable assets over the course of the year which resulted in the \$5.8 million of additional depreciation expense.

Net other postemployment benefits – The District implemented GASB Statement No. 45 in the current year and recorded the actuarially determined annual required contribution. See Note 8 to the basic financial statements for further information regarding postemployment benefits other than pension.

Capital contributions - Facilities built by developers and turned over to the District to operate and maintain decreased to \$38.4 million compared to \$57.8 million in the previous year, a decrease of \$19.4 million.

Net assets - The financial condition of the District has improved from the previous year. The District's net assets increased by \$67.8 million to \$1,389.6 million. This is a 5.1% increase over the prior year and is illustrated on the table on page 4 that compares the various categories of assets, liabilities and net assets for the two fiscal years 2007/08 and 2006/07.

Capital Assets

Net of accumulated depreciation, the District reported capital assets of \$1,592.4 million in fiscal year 2007/08 compared to \$1,413.8 million in fiscal year 2006/07. A comparison of this change is provided on the following page by major category. Also, see Note 3 to the basic financial statements for further information regarding capital assets.

Capital Assets
For the Fiscal Years Ended June 30, 2008 and 2007

			<u>Increase/Decrease</u>	
	<u>2007/08</u>	<u>2006/07</u>	<u>Amount</u>	<u>%</u>
Land	\$ 32,994,855	\$ 34,444,198	\$ (1,449,343)	-4.2%
Water plant, lines and equip.	657,125,595	621,685,653	35,439,942	5.7%
Water capacity rights	23,832,124	30,547,960	(6,715,836)	-22.0%
Sewer plant, lines and equip.	965,535,652	881,113,676	84,421,976	9.6%
Equipment and general facilities	93,189,002	87,838,581	5,350,421	6.1%
Construction in progress	344,400,618	233,810,010	110,590,608	47.3%
Total capital assets	2,117,077,846	1,889,440,078	227,637,768	12.0%
Less accumulated depreciation	524,694,788	475,721,863	48,972,925	10.3%
Net capital assets	\$ 1,592,383,058	\$ 1,413,718,215	\$ 178,664,843	12.6%

Significant additions to capital assets include \$38.4 million in contributed capital from developers in the area. Most of the contributed assets were water and sewer lines that were required to keep up with the increased development in the area. Other additions resulted from the completion and capitalization of \$93.3 million construction in progress.

The three largest District projects that were capitalized during the fiscal year ended June 30, 2008 include the French Valley Sewer Improvements (\$12.8 Million); the North San Jacinto Sewer, Phase II (\$10.5 Million); and the Reach 16 Phase II Recycled Water Pipeline (\$7.7 Million).

The French Valley Sewer Improvements project included the design and construction of approximately 12,900 linear feet of 15 inch, 24 inch and 36 inch diameter sewer pipeline and all necessary appurtenances starting at the intersection of Leon Road and Benton Road, proceeding west and south along: Temecu Street, Magdas Coloradas Street, Briggs Road, Auld Road, Sky Canyon Drive, Airport Road, Winchester Road, and Hunter Road; and ending at the intersection of Shady Maples Road and Hunter Road. This project was substantially complete at June 30, 2008, with final work to be completed in October 2008.

The North San Jacinto Sewer, Phase II project included the design and construction of approximately 8,200 linear feet of 27 inch, 24 inch, 16 inch, 12 inch and 8 inch diameter gravity sewer along Potter Road, Ramona Expressway and State Street. In addition, it included construction of approximately 1,700 linear feet of 8 inch force main and the abandonment of the College Lift Station. This project was substantially complete at June 30, 2008, with final work to be completed in December 2008.

The Reach 16 Phase II Recycled Water Pipeline project included the design and construction of approximately 28,000 linear feet of 24 inch diameter recycled water pipeline and associated

appurtenances to serve the western San Jacinto Valley. This project was substantially complete at June 30, 2008, with final work to be completed in September 2008.

The District had \$121,982,970 in construction contract commitments as of June 30, 2008. See Note 11 to the basic financial statements for further information regarding these commitments.

Capital Expenditures

During the year, additions to construction in progress totaled approximately \$203.9 million. Some of the major projects currently underway and where expenditures in fiscal year 2007/08 exceeded \$3.0 million include the:

- Perris Valley Regional Water Reclamation Facility (RWRF) Plant No. 3 Expansion (\$55.4 million)
- San Jacinto Valley Interceptor Sewer (\$12.6 million)
- Cactus Avenue Feeder Pipeline (\$11.0 million)
- Perris Valley Water RWRF Tertiary Expansion to 22 MGD (\$8.8 million)
- Cactus Avenue Pump Station (\$7.9 million)
- 36" Potable Waterline in Linderberger Road (\$5.0 million)
- Moreno Valley RWRF Expansion to 21 MGD (\$4.9 million)
- Sunnymead Blvd. 6" & 8" Pipeline Replacement (\$3.9 million)
- Moreno Valley RWRF Fuel Cell Cogeneration System (\$3.2 million)
- Seventeen water and sewer projects between \$1,000,000 - \$3,000,000 (\$30.7 million)
- Nineteen water and sewer projects between \$500,000 - \$1,000,000 (\$13.5 million)
- Sixty-six water and sewer projects between \$100,000 - \$500,000 (\$16.2 million).

The remaining \$30.8 million was for various water and sewer projects with expenditures less than \$100,000 in the current fiscal year.

Long-Term Liabilities

At June 30, 2008, the District had a net \$553.9 million in long-term liabilities outstanding, a net decrease of \$14.0 million or 2.5 percent from the prior year. Long-term liabilities consist of debt, including advances for construction, notes and assessments, certificates of participation (COPs), and general obligation (GO) bonds; unamortized deferred amounts for premiums/discounts and refundings relating to COP and GO debt issuances; reimbursable agreements; and compensated absences. Detailed information relating to the net other postemployment benefits obligation of \$6.2 million is presented in Note 8 to the basic financial statements. The amount of debt due within one year totaled \$11.8 million, net of deferred amounts, and the amount of compensated absences due within one year totaled \$5.3 million. Long-term debt decreased \$9.8 million due to scheduled debt payments offset by an increase of \$5.0 million relating to the refundings of the series 2001B, 2006B and 1993B COPs. The District had an obligation for compensated absences of \$10.4 million at fiscal year end; an increase of \$0.7 million from the prior year. Deferred amounts were (\$12.8) million at fiscal year end; an increase of \$4.9 million from the prior year with an amortized amount of (\$1.1) million due within one year. This increase relates to the COP refundings previously mentioned. The District has been assigned an AA, AA and Aa3 rating from Fitch Ratings, Standard & Poor's Rating Services and Moody's Investor Service, Inc., respectively. More detailed information about the District's long-term debt and other liabilities is presented in Note 5 to the basic financial statements.

Contacting the District's Financial Management

This financial report is designed to provide Eastern Municipal Water District's elected officials, citizens, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability of the money it receives. If you have any questions regarding this report or need additional financial information, please contact the District's Finance Department.

Eastern Municipal Water District

Statement of Net Assets

June 30, 2008
(with prior year data for comparison purposes only)

	June 30	
	2008	2007
Assets		
Current assets:		
Cash and investments (Note 2)	\$ 155,337,619	\$ 123,447,402
Utility accounts receivable, net of allowances	20,378,154	19,590,351
Property taxes receivable	10,136,467	7,815,903
Accrued interest receivable	3,996,620	5,397,389
Other receivables	2,047,776	1,022,344
Prepaid expenses	2,285,846	2,168,228
Materials and supplies inventory	2,466,730	2,698,820
Deposits	43,326	10,482
Total current assets	<u>196,692,538</u>	<u>162,150,919</u>
Noncurrent assets:		
Restricted assets:		
Debt service/covenants cash and investments (Note 2)	99,693,435	100,004,585
Property taxes receivable	1,652,111	1,416,914
Construction cash and investments (Note 2)	131,984,992	296,778,818
Notes receivable	1,632,334	1,032,447
Total restricted assets	<u>234,962,872</u>	<u>399,232,764</u>
Capital assets: (Note 3)		
Land	32,994,855	34,444,198
Structures, improvements and water rights	1,646,493,371	1,533,347,289
Equipment and general facilities	93,189,002	87,838,581
Construction in progress	344,400,618	233,810,010
Total capital assets	2,117,077,846	1,889,440,078
Less accumulated depreciation	<u>(524,694,788)</u>	<u>(475,721,863)</u>
Net capital assets	<u>1,592,383,058</u>	<u>1,413,718,215</u>
Other assets:		
Prepaid PERS contribution (Note 4)	6,683,917	7,214,866
Unamortized debt issuance costs	3,618,134	4,098,889
Tunnel water seepage agreement (Note 10)	1,750,900	1,750,900
Total other assets	<u>12,052,951</u>	<u>13,064,655</u>
Total noncurrent assets	<u>1,839,398,881</u>	<u>1,826,015,634</u>
Total assets	<u>\$ 2,036,091,419</u>	<u>\$ 1,988,166,553</u>

	June 30	
	2008	2007
Liabilities:		
Current liabilities:		
Accounts payable	\$ 32,217,650	\$ 39,798,446
Accrued salaries and benefits	1,860,610	1,499,617
Other accrued expenses	1,220,240	1,267,006
Customer deposits	5,343,831	4,795,663
Current portion of compensated absences (Note 5)	5,302,688	5,147,202
Accrued interest payable	6,715,294	8,641,702
Other payables	2,523,659	5,358,718
Advances from developers (Note 14)	36,481,691	37,159,800
Current portion of advances for construction, notes and assessments (Note 5)	4,223,298	3,348,613
Current portion of certificates of participation (Note 5)	6,755,000	9,720,000
Current portion of GO bonds (Note 5)	1,880,000	1,805,000
Less unamortized premium/discount and deferred charges (Note 5)	<u>(1,052,987)</u>	<u>(752,989)</u>
Total current liabilities	<u>103,470,974</u>	<u>117,788,778</u>
Noncurrent liabilities:		
Advances for construction, notes and assessments (Note 5)	45,407,198	49,526,103
Certificates of participation (Note 5)	481,705,000	483,470,000
General obligation (GO) bonds (Note 5)	16,260,000	18,140,000
Reimbursable agreements (Note 5)	51,976	61,111
Compensated absences (Note 5)	5,088,884	4,569,423
Less unamortized premium/discount and deferred charges (Note 5)	<u>(11,736,667)</u>	<u>(7,179,895)</u>
Net other postemployment benefits obligation (Note 8)	<u>6,218,949</u>	<u>-</u>
Total noncurrent liabilities	<u>542,995,340</u>	<u>548,586,742</u>
Total liabilities	<u>\$ 646,466,314</u>	<u>\$ 666,375,520</u>
Net assets:		
Invested in capital assets, net of related debt	\$ 1,097,667,937	\$ 963,472,752
Restricted for debt service/covenants	56,443,385	57,377,104
Restricted for construction	133,617,326	238,268,776
Unrestricted	<u>101,896,457</u>	<u>62,672,401</u>
Total net assets	<u>\$ 1,389,625,105</u>	<u>\$ 1,321,791,033</u>

See accompanying notes to the basic financial statements.

C-22

Eastern Municipal Water District
Statement of Revenues, Expenses and Changes in Net Assets
For the Fiscal Year Ended June 30, 2008
(with prior year data for comparison purposes only)

	Fiscal Year Ended June 30	
	2008	2007
Operating revenues:		
Water sales – domestic	\$ 91,864,344	\$ 91,596,156
Water sales – irrigation	2,271,298	1,083,633
Sewer service charges	54,408,172	50,318,414
Recycled water	2,564,656	2,748,328
Total operating revenues	151,108,470	145,746,531
Operating expenses:		
Purchased water	41,653,430	43,866,732
Water operations	38,447,533	35,332,561
Sewer operations	39,976,740	37,404,662
Recycled water operations	5,071,116	4,379,135
General and administrative	30,138,792	25,292,047
Depreciation and amortization	51,030,538	45,255,839
Net other postemployment benefits	6,218,949	-
Total operating expenses	212,537,098	191,530,976
Loss from operations	(61,428,628)	(45,784,445)
Non-operating revenues (expenses):		
Property taxes – general levy	34,528,767	31,293,863
Property taxes – bond levy	3,119,336	3,555,565
Standby charges	4,868,154	4,667,297
Water and sewer connection fees	30,706,687	52,894,363
Interest – operations and restricted funds	18,912,314	23,578,130
Interest – bond funds	450,733	388,016
Grant revenues	11,261,996	4,598,769
Other revenues	7,220,589	9,245,917
Net increase in fair value of investments	1,216,534	5,321,392
Interest – certificates of participation	(21,953,962)	(22,670,400)
Interest – bond	(913,641)	(993,116)
Interest – other	(547,805)	(497,555)
Bond service fees	(97,289)	(97,902)
Gain on disposal of capital assets	6,647,392	76,072
Other expenses	(4,507,809)	(4,730,583)
Total non-operating revenues	90,911,996	106,629,828
Income before contributions	29,483,368	60,845,383
Capital contributions	38,350,704	57,756,357
Change in net assets	67,834,072	118,601,740
Total net assets at beginning of year	1,321,791,033	1,203,189,293
Total net assets at end of year	\$ 1,389,625,105	\$ 1,321,791,033

See accompanying notes to the basic financial statements.

Eastern Municipal Water District
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2008
(with prior year data for comparison purposes only)

	Fiscal Year Ended June 30	
	2008	2007
Cash flows from operating activities		
Cash received from customers	\$ 150,975,863	\$ 148,604,450
Cash payments for water	(41,653,430)	(43,866,732)
Cash payments to employees for services	(57,123,926)	(49,471,530)
Cash payments to suppliers for goods and services	(50,613,750)	(39,089,216)
Cash payments for energy and utilities	(16,288,224)	(15,698,344)
Proceeds from standby charges and other revenues	11,862,347	13,765,290
Other operating revenues	2,680,330	10,376,742
Net cash provided by (used for) operating activities	(160,790)	24,620,660
Cash flows from noncapital financing activities		
Proceeds from property taxes, general levy	32,434,599	29,379,550
Proceeds from grants	11,261,996	4,598,769
Net cash provided by noncapital financing activities	43,696,595	33,978,319
Cash flows from capital and related financing activities		
Acquisitions and construction of capital assets	(207,383,867)	(173,928,619)
Repayment of bonds and certificates of participation	(172,365,000)	(32,700,000)
Interest paid	(25,341,816)	(22,302,815)
Proceeds from water and sewer connection fees	30,706,687	52,894,363
Proceeds from long-term debt issuance	161,356,696	28,697,409
Proceeds from notes payable and reimbursements	104,393	307,773
Repayments of notes payable and reimbursements	(3,348,613)	(3,393,140)
Proceeds from sale of capital assets	6,994,578	1,291,207
Proceeds from property taxes, bond levy	2,884,139	3,398,048
Receipts (payments) of developer advances	(3,513,170)	11,495,917
Net cash (used for) capital and related financing activities	(209,905,973)	(134,239,857)
Cash flows from investing activities		
Purchases of investment securities	(479,484,629)	(225,820,741)
Proceeds from sales and maturities of investment securities	589,237,637	290,948,361
Proceeds from earnings on investments	20,763,816	22,746,904
Net cash provided by investing activities	130,516,824	87,874,524
Total (decrease) increase in cash and cash equivalents	(35,853,343)	12,233,646
Cash and cash equivalents at beginning of year	73,365,476	61,131,830
Cash and cash equivalents at end of year (Note 2)	\$ 37,512,133	\$ 73,365,476

(Continued on next page)

Eastern Municipal Water District

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2008
(with prior year data for comparison purposes only)
(continued)

	Fiscal Year Ended June 30	
	2008	2007
Reconciliation of loss from operations to net cash provided by operating activities:		
Loss from operations	\$ (61,428,628)	\$ (45,784,445)
Adjustments to reconcile loss from operations to net cash provided by (used for) operating activities:		
Operating activities:		
Depreciation and amortization	51,030,538	45,255,839
Standby charges and other revenues	11,862,347	13,765,290
Changes in assets and liabilities:		
Decrease (increase) in utility accounts receivable	(787,803)	(2,296,973)
Decrease (increase) in other receivables	(1,025,432)	1,718,012
Decrease (increase) in prepaid expenses	(117,618)	(989,625)
Decrease (increase) in materials and supplies inventory	232,090	(379,667)
Decrease (increase) in deposits	(32,844)	34,550
Decrease (increase) in notes receivable	(599,887)	626,939
Decrease (increase) in other assets	530,949	530,949
Increase (decrease) in accounts payable	(7,580,793)	10,351,911
Increase (decrease) in accrued expenses	314,227	393,570
Increase (decrease) in customer deposits	548,168	186,659
Increase (decrease) in compensated absences	674,947	1,207,651
Increase (decrease) in net other postemployment benefits obligation	6,218,949	-
Net cash provided by (used for) operating activities	\$ (160,790)	\$ 24,620,660
Reconciliation of cash and cash equivalents to statement of net assets:		
Current cash and investments	\$155,337,619	\$ 123,447,402
Restricted cash and investments:		
Debt service/covenants	99,693,435	100,004,585
Construction	131,984,992	296,778,818
Total cash and investments	387,016,046	520,230,805
Less investments	349,503,913	446,865,329
Cash and cash equivalents (Note 2)	\$ 37,512,133	\$ 73,365,476
Noncash capital, financing, and investing activities		
Contributions of capital assets from developers and others	\$ 38,350,704	\$ 57,756,357
Increase in fair value of investments	\$ 1,216,534	\$ 5,321,392

See accompanying notes to the basic financial statements.

**Eastern Municipal Water District
Notes to the Basic Financial Statements**

For the Fiscal Year Ended June 30, 2008

1. Description of Reporting Entity and Summary of Significant Accounting Policies

Reporting Entity

The Eastern Municipal Water District (District) was formed in October 1950, under the California Water Code for the primary purpose of importing Colorado River Water to augment local water supplies. The District serves an area of approximately 346,449 acres (541 square miles), encompassing the westerly third of Riverside County. The District is operated under the direction of a five-member Board of Directors (Board) elected for four-year terms. The District presently imports 79% of its water supply from the Metropolitan Water District of Southern California (MWD) and derives the remaining 21% of its water supply from local groundwater sources. The District is a member agency of MWD and is currently entitled to have one District representative sit on the Board of MWD.

In 1962, the District began providing wastewater treatment services to customers within its service area and, as a consequence, has become actively involved in the production of recycled water (i.e., wastewater which has been treated to a level acceptable for nondomestic purposes) and has been recognized as an industry leader in the management of ground water basins and the related beneficial uses of recycled water. The District's water and wastewater customers include retail customers (e.g., residential, commercial and agricultural) located in both incorporated and unincorporated areas within the District's service area, as well as wholesale customers (e.g., municipalities and local water Districts) located within its service area.

The District formed the Eastern Municipal Water District Facilities Corporation (Facilities Corporation) on April 10, 1979, under the Non-Profit Public Benefit Corporation Law, State of California, for the purpose of rendering financing assistance to the District by acquiring, constructing and operating or providing for the operation of water and wastewater facilities, including water and wastewater transmission pipelines, treatment plants and related facilities for the use, benefit and enjoyment of the public within the District's boundaries. The Facilities Corporation is a component unit of the District.

The District's reporting entity includes the general District, the related improvement Districts located within the service area of the general District and the Eastern Municipal Water District Facilities Corporation. Although the District and the Facilities Corporation are legally separate entities, the District's Board of Directors also serves as the Facilities Corporation's Board of Directors, and therefore, the accompanying financial statements include the accounts and records of the Facilities Corporation as required by generally accepted accounting principles using the blending method. There are no separate financial statements for the Facilities Corporation. The Facilities Corporation merely serves as the legal entity used by the District to issue long-term debt. Accordingly, the Facilities Corporation has no separate financial activity to be reported as a separated fund of the District.

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

1. Description of Reporting Entity and Summary of Significant Accounting Policies (continued)

Basis of Accounting and Measurement Focus

The District accounts for its operation in an enterprise fund using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

An enterprise fund 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 the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for water sales and sewer services. Operating expenses for the District include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Pronouncements of GASB and FASB

Under Government Accounting Standards Board (GASB) Statement No. 20, the District has elected not to apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989.

Cash and Investments

Investments are carried at fair value, except for guaranteed investment contracts, which are carried at cost, because they are not transferable and they have terms that are not affected by changes in market interest rates.

Cash Equivalents

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

Classification of Revenues and Expenses

Operating revenues are those revenues that are generated by domestic, agricultural and irrigation, and recycled water sales, as well as sewer service charges, while operating expenses pertain to the furnishing of those services.

Non-operating revenues and expenses are those revenues and expenses generated that are not directly associated with the normal business of supplying water and wastewater treatment services. Non-operating revenues mainly consist of property taxes, standby charges, investment income, grant revenues, connection fees and miscellaneous income. Capital contributions consist of contributed capital assets and special charges that are legally restricted for capital expenditures by state law or by the Board action that established those charges. Non-operating expenses mainly consist of debt service interest and debt-related fees.

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

1. Description of Reporting Entity and Summary of Significant Accounting Policies (continued)

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. water and sewer pipelines) are defined by the District as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of two years. Assets are recorded at cost. Contributed capital assets are recorded at fair market value at the time they are received. The contributed assets consist primarily of distribution lines and connections constructed and donated by developers.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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

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

Allowance for Doubtful Accounts

An allowance for doubtful accounts has been established for utility accounts receivables that are 60+ days delinquent at year-end. This allowance amounts to \$690,461 and \$368,961 at June 30, 2008 and 2007, respectively.

Inventories

Inventory consists primarily of materials used in the construction and maintenance of utility plant and is valued at weighted average cost.

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

1. Description of Reporting Entity and Summary of Significant Accounting Policies (continued)

Restricted Assets

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

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

Generally, restricted resources are not commingled with unrestricted resources in financing projects and activities. The funding source for each project and activity is determined by Board action depending upon the type of project or activity. Restricted resources are used for specific types of projects for which such funding is designated.

Revenue Recognition

Revenues are recognized when earned. Metered water accounts are read and billed daily on 30-day cycles. Wastewater customers are also billed and included with the water billing. In certain areas of the District, the wastewater billing is handled by another water utility agency, but is accrued as revenues by the District each month. Collections are forwarded monthly, based on actual receipts. Unbilled water and wastewater charges are accrued for the period from the last meter reading through year-end and are included in accounts receivable. Unbilled accounts receivable amounted to \$6,181,347 and \$5,347,937 at June 30, 2008 and 2007, respectively.

Property Taxes

Property tax in California is levied in accordance with Article XIII A of the State Constitution at 1% of countywide assessed valuations. The property taxes are placed in a pool and are then allocated to the local governmental units based upon complex formulas. Property tax revenue is recognized in the fiscal year in which the taxes have been levied.

The property tax calendar is as follows:

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

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

1. Description of Reporting Entity and Summary of Significant Accounting Policies (continued)

Debt Issuance Costs

Bond and certificate premiums and discounts, loss on refunding amortized over the shorter life of the new or old bonds, and issuance costs are deferred and amortized over the term of bonds using the effective interest method. Net bond and certificate discounts and loss on refunding are presented as a reduction of the face amount of certificates of participation and bonds payable, whereas issuance costs are recorded as other assets.

Compensated Absences

The District has a policy whereby an employee can accumulate unused sick leave and vacation. Sick leave is to be used for extended periods of sickness; however, upon termination or retirement, a portion is paid as additional benefits to the employee. At retirement, employees who qualify under the Public Employees Retirement Law are paid for 100% of the then unused sick leave up to the maximum of 625 hours, at their regular payroll rates in effect at the date of termination. All employees who separate from the District, other than for retirement, who have completed at least six months of continuous service and/or have been authorized to use their sick leave, are entitled to receive 25% to 75% of the then unused sick leave at their regular payroll rate. The District has provided for these future costs by accruing 100% of earned and unused sick leave up to the maximum number of hours plus 50% of any hours over the stated maximum, and 100% of the earned and unused vacation.

Use of Estimates

The financial statements are prepared in conformity with generally accepted accounting principles and, accordingly, include amounts that are based on management's best estimates and judgments.

Prior Year Data

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the District's prior year financial statements, from which this selected financial data was derived.

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

2. Cash and Investments

Cash and investments are classified in the accompanying statement of net assets at June 30 as follows:

	2008	2007
Current assets	\$ 155,337,619	\$ 123,447,402
Restricted assets:		
Debt service/covenants	99,693,435	100,004,585
Construction	131,984,992	296,778,818
Totals	\$ 387,016,046	\$ 520,230,805

Cash and investments at June 30 consisted of the following:

	2008	2007
Cash on hand	\$ 3,600	\$ 3,600
Deposits with financial institutions	(4,025,954)	(3,195,724)
Investments	391,038,400	523,422,929
Total cash and investments	\$ 387,016,046	\$ 520,230,805

Cash and cash equivalents at June 30 consisted of the following:

	2008	2007
Demand accounts and on hand	\$ (4,022,354)	\$ (3,192,124)
Money market mutual funds	25,475,127	19,096,382
Sweep account (repurchase agreement)	4,481,344	6,411,206
Local Agency Investment Fund (LAIF)	10,006,129	22,989,536
Investment Trust of California (CalTRUST)	1,571,887	28,060,476
Total cash and cash equivalents	\$ 37,512,133	\$ 73,365,476

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

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

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

2. Cash and Investments (continued)

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

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

* Based upon State law or investment policy requirements, whichever is more restrictive.
(1) Only permitted for use in the District's sweep account.

Investments Authorized by Debt Agreements

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

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

C-27

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

2. Cash and Investments (continued)

Disclosures relating to Interest Rate Risk

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

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

Investment Type	Total Amount	12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months
U.S. agency securities:					
Federal Farm Credit Bank (FFCB)	\$ 26,533,200	\$ -	\$ -	\$ 26,533,200	\$ -
Federal Home Loan Bank (FHLB)	73,561,952	-	5,003,125	68,558,827	-
Federal Home Loan Mortgage Corp. (FHLMC)	122,292,724	10,003,700	5,115,250	107,173,774	-
Federal National Mortgage Assn. (FNMA)	94,491,342	5,009,375	5,010,938	84,471,029	-
LAIF	10,006,129	10,006,129	-	-	-
Investment Trust of California (CalTRUST)	1,571,887	1,571,887	-	-	-
Repurchase agreement (sweep account)	4,481,344	4,481,344	-	-	-
Held by bond trustee:					
Guaranteed investment contracts (GICs)	24,223,402	-	-	-	24,223,402
California municipal bonds	8,401,293	-	-	-	8,401,293
Money market mutual funds	25,475,127	25,475,127	-	-	-
Total Investments	\$ 391,038,400	\$ 56,547,562	\$ 15,129,313	\$ 286,736,830	\$ 32,624,695

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

The District's investments (including investments held by bond trustees) do not include investments that are highly sensitive to interest rate fluctuations.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented on the next page is the minimum rating required by the California Government Code, the District's investment policy, or debt agreements, and the actual Standard and Poor's credit rating as of year end for each investment type:

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

2. Cash and Investments (continued)

Disclosures Relating to Credit Risk (continued)

Investment Type	Total Amount	Min. Legal Rating	Rating at End of Year			
			AAA	AA	A+	Unrated
U.S. agency securities:						
FFCB	\$ 26,533,200	N/A	\$ 26,533,200	\$ -	\$ -	-
FHLB	73,561,952	N/A	73,561,952	-	-	-
FHLMC	122,292,724	N/A	122,292,724	-	-	-
FNMA	94,491,342	N/A	94,491,342	-	-	-
LAIF	10,006,129	N/A	-	-	-	10,006,129
CalTRUST	1,571,887	N/A	-	-	-	1,571,887
Repurchase agreement (sweep account)						
	4,481,344	N/A	-	-	-	4,481,344
Held by bond Trustee:						
Guaranteed investment contracts	24,223,402	N/A	-	-	-	24,223,402
California municipal bonds	8,401,293	N/A	1,234,064	5,207,089	1,960,140	-
Money market mutual funds	25,475,127	A	25,475,127	-	-	-
Total Investments	\$391,038,400		\$343,588,409	\$5,207,089	\$1,960,140	\$40,282,762

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 that represent 5% or more of total District's investments are as follows:

Issuer	Investment Type	Reported Amount
FHLMC	U.S. Agency Securities	\$ 122,292,724
FNMA	U.S. Agency Securities	94,491,342
FHLB	U.S. Agency Securities	73,561,952
FFCB	U.S. Agency Securities	26,533,200

Custodial Credit Risk

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

C-28

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

2. Cash and Investments (continued)

Investment in State Investment Pool

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

Investment in Investment Trust of California (CalTRUST)

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

C-29

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

3. Capital Assets

A summary of capital assets at June 30 is as follows:

	Beginning Balance June 30, 2007	Additions	Reductions	Ending Balance June 30, 2008
Capital assets, not being depreciated:				
Land	\$ 34,444,198	\$ 138,876	\$ (1,588,219)	\$ 32,994,855
Construction in progress	233,810,010	203,854,678	(93,264,070)	344,400,618
Total capital assets, not being depreciated	268,254,208	203,993,554	(94,852,289)	377,395,473
Capital assets, being depreciated:				
Water plant, lines and equipment	621,685,653	35,439,942	-	657,125,595
Water capacity rights	30,547,960	3,546,855	(10,262,691)	23,832,124
Sewer plant, lines and equipment	881,113,676	88,956,578	(4,534,602)	965,535,652
Equipment and general facilities	87,838,581	7,061,712	(1,711,291)	93,189,002
Total capital assets, being depreciated	1,621,185,870	135,005,087	(16,508,584)	1,739,682,373
Less accumulated depreciation for:				
Water plant, lines and equipment	177,135,667	18,296,897	-	195,432,564
Water capacity rights	2,943,343	816,772	(346,330)	3,413,785
Sewer plant, lines and equipment	246,213,201	26,209,011	(1,075,480)	271,346,730
Equipment and general facilities	49,429,652	5,707,858	(635,801)	54,501,709
Total accumulated depreciation	475,721,863	51,030,538	(2,057,611)	524,694,788
Total capital assets, being depreciated, net	1,145,464,007	83,974,550	(14,450,972)	1,214,987,585
Capital assets, net	<u>\$ 1,413,718,215</u>	<u>\$ 287,968,104</u>	<u>\$ (109,303,261)</u>	<u>\$ 1,592,383,058</u>

Depreciation breakdown at June 30, 2008:

Water	\$ 18,604,828
Sewer	22,906,975
Recycled	3,717,254
Admin/Other	5,801,481
Total	<u>\$ 51,030,538</u>

4. PERS Prepaid Unfunded Liability

The District amended its California Public Employees Retirement System (PERS) contract on January 4, 1998 to implement a 2% at 55 retirement program. The actuarial division of PERS determined that the present value impact on the District was an unfunded liability of \$4,939,895. This would result in an employer rate increase of 1.495% of eligible payroll over the next 20 years. However, the District opted to pay this liability in advance and is amortizing this prepaid amount over the next 20 years. The current portion is \$246,995, and future deferred expense is \$2,140,669 at June 30, 2008.

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

4. PERS Prepaid Unfunded Liability (continued)

The District amended its PERS contract on August 5, 2005 to implement a 2-1/2% at 55 retirement program. The actuarial division of PERS determined that the present value impact on the District was an unfunded liability of \$5,679,062. This would result in an employer rate increase of 2.145% of eligible payroll over the next 20 years. However, the District opted to pay this liability in advance and is amortizing this prepaid amount over the next 20 years. The current portion is \$283,953 and future deferred expense is \$4,543,248 at June 30, 2008.

5. Long-Term Liabilities

A summary of the long-term debt and other liabilities (excluding net other postemployment benefits obligation) at June 30 is as follows:

	Beginning Balance June 30, 2007	Additions	Reductions	Ending Balance June 30, 2008	Due Within One Year
Advances for construction, notes and assessments	\$ 52,874,716	\$ 104,393	\$ (3,348,613)	\$ 49,630,496	\$ 4,223,298
Certificates of participation	493,190,000	165,830,000	(170,560,000)	488,460,000	6,755,000
General obligation bonds	19,945,000	-	(1,805,000)	18,140,000	1,880,000
Sub-total	566,009,716	165,934,393	(175,713,613)	556,230,496	12,858,298
Reimbursable agreements	61,111	141,304	(150,439)	51,976	-
Compensated absences	9,716,625	7,309,940	(6,634,993)	10,391,572	5,302,688
Sub-total	9,777,736	7,451,244	(6,785,432)	10,443,548	5,302,688
Less: Unamortized premium/discount and deferred refunding charges	(7,932,884)	(9,211,435)	4,354,665	(12,789,654)	(1,052,987)
Total Long-Term Liabilities	\$567,854,568	\$164,174,202	\$(178,144,380)	\$553,884,390	\$17,107,999

The future maturities of long-term debt excluding reimbursable agreements and compensated absences as of June 30, 2008 are as follows:

Year ending June 30:	Principal	Interest	Total
2009	\$ 12,858,298	\$ 19,214,083	\$ 32,072,381
2010	16,517,969	22,260,033	38,778,002
2011	16,471,146	21,577,829	38,048,975
2012	15,607,221	20,854,268	36,461,489
2013	19,485,357	19,999,689	39,485,046
2014-18	101,791,810	86,965,920	188,757,730
2019-23	142,008,596	60,195,560	202,204,156
2024-28	108,854,464	32,613,651	141,468,115
2029-33	86,780,635	14,963,430	101,744,065
2034-36	35,855,000	2,118,743	37,973,743
Sub-total	556,230,496	300,763,206	856,993,702
Less: Unamortized premium/discount and deferred refunding charges	(12,789,654)	-	(12,789,654)
Total	\$ 543,440,842	\$ 300,763,206	\$ 844,204,048

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

5. Long-Term Liabilities (continued)

Advances for Construction, Notes and Assessments

Advances for construction, notes and assessments consist of the following at June 30:

	2008	2007
State of California Department of Water Resources-Safe, Clean, Reliable Water Supply Act (Proposition 204)	\$ 33,678,670	\$ 33,574,277
State of California Department of Water Resources-Safe, Clean, Reliable Water Supply Act (Proposition 204)	1,594,561	1,678,955
State of California Department of Water Resources-Water Conservation Bond Law of 1988 (Proposition 82)	2,516,419	2,649,603
Elsinore Valley Municipal Water District	73,920	97,502
Santa Anna Watershed Project Authority	1,264,764	1,537,513
1992 State of California Agricultural Drainage Water Management Loan	4,593,414	5,468,918
1991 Federal Reclamation Facilities Project Loan	5,908,748	7,867,948
Total	49,630,496	52,874,716
Less current portion	4,223,298	3,348,613
Total long-term advances for construction, notes and assessments	\$ 45,407,198	\$ 49,526,103

The notes payable are general obligations of the District's individual improvement districts which issued the notes and are payable from the revenues and taxes of the respective improvement Districts.

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

5. Long-Term Liabilities (continued)

Advances for Construction, Notes and Assessments (continued)

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

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

The loan to the District is \$42,098,388 repayable in semiannual payments of approximately \$1,052,460 including principal and imputed interest. The loan contract required that the District make certain payments to the State in order to receive loan advances. The District's recorded liability for this obligation has been presented net of these required payments which totaled \$8,419,718. The loan contract carries no stated interest rate; however interest has been imputed at approximately 2.273% with calculated amounts ranging from \$11,825 to \$382,705. Semiannual payments will begin January 1, 2009 with the final payment scheduled for July 1, 2028.

Year ending June 30:	Principal	Interest	Total
2009	\$ 669,755	\$ 382,705	\$ 1,052,460
2010	1,362,427	742,492	2,104,919
2011	1,393,567	711,352	2,104,919
2012	1,425,419	679,501	2,104,920
2013	1,457,998	646,921	2,104,919
2014-18	7,805,347	2,719,251	10,524,598
2019-23	8,739,058	1,785,539	10,524,597
2024-28	9,784,464	740,132	10,524,596
2029	1,040,635	11,825	1,052,460
Total	\$ 33,678,670	\$ 8,419,718	\$ 42,098,388

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

Year ending June 30:	Principal	Interest	Total
2009	\$ 86,959	\$ 43,955	\$ 130,914
2010	89,319	41,595	130,914
2011	91,838	39,076	130,914
2012	94,354	36,560	130,914
2013	97,158	33,755	130,913
2014-18	528,082	126,488	654,570
2019-23	606,851	47,718	654,569
Total	\$ 1,594,561	\$ 369,147	\$ 1,963,708

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

5. Long-Term Liabilities (continued)

Advances for Construction, Notes and Assessments (continued)

Water Conservation Bond Law of 1988 (Proposition 82)

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

Year ending June 30:	Principal	Interest	Total
2009	\$ 137,233	\$ 69,366	\$ 206,599
2010	140,956	65,643	206,599
2011	144,932	61,667	206,599
2012	148,902	57,697	206,599
2013	153,328	53,270	206,598
2014-18	833,381	199,612	1,032,993
2019-23	957,687	75,307	1,032,994
Total	\$ 2,516,419	\$ 582,562	\$ 3,098,981

Elsinore Valley Municipal Water District

Elsinore Valley Municipal Water District, financial participation agreement note; interest rates ranging from 2.0% to 4.0% with annual principal installments ranging from \$21,314 to \$25,849 through July 15, 2011.

Year ending June 30:	Principal	Interest	Total
2009	\$ 23,582	\$ 2,627	\$ 26,209
2010	24,489	1,860	26,349
2011	25,849	1,034	26,883
Total	\$ 73,920	\$ 5,521	\$ 79,441

Santa Ana Watershed Project Authority

Santa Ana Watershed Project Authority (SAWPA) agreement for purchase of capacity rights in the Santa Ana Regional Interceptor (SARI) pipeline; interest rate of 6%; annual payment including principal and interest of \$365,000 through June 30, 2012.

Year ending June 30:	Principal	Interest	Total
2009	\$ 289,114	\$ 75,886	\$ 365,000
2010	306,461	58,539	365,000
2011	324,849	40,151	365,000
2012	344,340	20,660	365,000
Total	\$ 1,264,764	\$ 195,236	\$ 1,460,000

C-31

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

5. Long-Term Liabilities (continued)

Advances for Construction, Notes and Assessments (continued)

1992 State of California Agricultural Drainage Water Management Loan

On January 15, 1992, the District executed a loan contract with the State (California) Water Resources Control Board to provide financing for a portion of the Menifee Basin Desalter Project. The District received \$11,600,000 in loan proceeds repayable in annual installments of \$1,045,041 on each January 31 through 2011 with a final payment of \$831,939 scheduled for November 17, 2012 at an interest rate of 3.1%.

Year ending June 30:	Principal	Interest	Total
2009	\$ 902,255	\$ 142,786	\$ 1,045,041
2010	930,617	114,424	1,045,041
2011	959,463	85,578	1,045,041
2012	989,206	55,835	1,045,041
2013	811,873	20,066	831,939
Total	\$ 4,593,414	\$ 418,689	\$ 5,012,103

1991 Federal Reclamation Facilities Project Loan

In October 1991, the District entered into a contract with the federal government under the provisions of Public Law 984 to provide funding for a portion of the District's Phase I – Reclamation Facilities Project. This project included the enlargement, rehabilitation, and improvement of facilities to provide irrigation water and better water service for 21,500 acres of irrigated land as well as to provide water for wetlands enhancement and municipal and industrial (M&I) water supply purposes.

The contract is being administered by the United States Department of the Interior, Bureau of Reclamation pursuant to the Small Reclamation Projects Act of 1956 (the Act). The total estimated project cost is \$46,046,400 with the District contributing \$13,621,400 and the federal government providing funding up to the balance of \$32,425,000, providing that funds were available under the Act.

A summary of the total federal government funding available under the contract is as follows:

Total federal funding	\$ 32,425,000
Less nonrepayable grant portion	6,733,300
Maximum loan proceeds including interest	\$ 25,691,700
Components of loan proceeds:	
Water supply	\$ 20,219,400
Fish and wildlife	4,147,300
Net loan proceeds	24,366,700
Interest charged during construction	1,325,000
Maximum loan proceeds	\$ 25,691,700

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

5. Long-Term Liabilities (continued)

Advances for Construction, Notes and Assessments (continued)

1991 Federal Reclamation Facilities Project Loan (continued)

Repayment of the loan began on May 1, 1999, with net loan proceeds repayable in 15 annual installments varying from \$552,900 to \$2,650,300 plus interest at rates varying from 0% to 9% on the fish and wildlife component and a portion of the water supply component. On October 6, 2003, the District elected to pay off the Fish and Wildlife component of the loan, with a payment of \$4,180,139. The interest rate applied to the outstanding balance of the Water Supply component (the interest on investment, or IOI) was 7.875% for the fiscal year ended June 30, 2008. However, only the portion of the calculated interest on investment amount and the annual reimbursable interest during construction (RIDC) amount allocated to the delivery of water to excess lands and to the furnishing of M&I water (water delivery ratio) is repayable. For 2008, the water delivery ratio was 12.54%, resulting in an actual interest rate of 0.81% for the period and the actual IOI and RIDC amounts paid were \$77,698 and \$85,814, respectively.

As of June 30, 2008, the District had received \$31,095,440 on this contract, of which the grant portion amounted to \$6,624,268 and the loan portion amounted to \$24,471,172. Since the total repayment obligation is less than the maximum loan proceeds of \$24,366,700, the above repayment schedule will still apply until the obligation is paid in full, in effect reducing the length of the repayment period.

Year ending June 30:	Principal	Interest	Total
2009	\$ 2,114,400	\$ 364,228	\$ 2,478,628
2010	2,273,700	167,485	2,441,185
2011	1,520,648	-	1,520,648
Total	\$ 5,908,748	\$ 531,713	\$ 6,440,461

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

5. Long-Term Liabilities (continued)

Certificates of Participation

Certificates of participation consist of the following at June 30:

	2008	2007
1991 certificates of participation	\$ 6,695,000	\$ 16,695,000
1993 B refunding certificates of participation	-	59,055,000
1997 A refunding certificates of participation	-	75,000
1998 A refunding certificates of participation	27,345,000	27,420,000
2001 A refunding certificates of participation	53,085,000	55,950,000
2001 B certificates of participation	-	51,370,000
2001 C refunding certificates of participation	9,645,000	11,040,000
2003 A refunding certificates of participation	24,390,000	24,515,000
2003 B certificates of participation	64,440,000	66,015,000
2006 A certificates of participation	106,320,000	106,320,000
2006 B certificates of participation	-	54,025,000
2007 A refunding certificates of participation	20,710,000	20,710,000
2008 A refunding certificates of participation	56,855,000	-
2008 B refunding certificates of participation	54,575,000	-
2008 C refunding certificates of participation	54,400,000	-
Total	488,460,000	493,190,000
Less current portion	6,755,000	9,720,000
Total long-term certificates of participation	<u>\$ 481,705,000</u>	<u>\$ 483,470,000</u>

2008C Refunding Certificates of Participation

In June 2008, the Facilities Corporation issued \$54,400,000 in Water and Sewer Revenue Refunding Certificates of Participation, Series 2008C. The net proceeds of \$57,189,288 were used to advance refund the District's outstanding 1993B Certificates in the amount of \$55,445,000 maturing July 1, in the years 2008 through 2020, to fund a debt service reserve fund for the 2008C Certificates; and to pay the costs of executing and delivering the 2008C Certificates. The proceeds of the 2008C Certificates were deposited in an irrevocable trust with an escrow agent for the payment of the 1993B Certificates and subsequently, all 1993B Certificates were redeemed on July 18, 2008. As a result, these 1993B series certificates are considered to be defeased and the liability for those bonds has been removed from the statement of net assets.

The advance refunding resulted in a difference between the reacquisition price (amount placed in the escrow account) and the net carrying amount of the old debt of \$3,541,491. This difference, reported in the accompanying financial statements as a deferred refunding charge, is being charged to operations through the year 2020 using the straight line method. The certificates of participation payable are reported net of these deferred charges. The District completed the advance refunding to remove all covenants relating to the 1993B Certificates. These certificates were insured by the Financial Guaranty Insurance Company (FGIC). The advance refunding was a refunding of variable rate debt. Therefore, an economic gain did not result from the refunding and there was no difference in cash flows.

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

5. Long-Term Liabilities (continued)

Certificates of Participation (continued)

2008C Refunding Certificates of Participation (continued)

The 2008C Certificates include serial certificates due in varying amounts from \$330,000 to \$7,955,000 annually on July 1 in the years 2009 to 2021; with interest payable monthly at a variable rate for a weekly period. The District may prepay all or part of the certificates at any time at par.

In connection with the issuance of the 1993B Certificates, the District entered into an Interest Rate Swap Agreement with AIG-FP dated May 1, 1993. AIG-FP is a recipient of a 24 month loan (maximum value \$85 billion) from the federal government that was needed in order for AIG-FP to have sufficient liquidity to continue operations. In connection with the issuance of the 2008C Refunding Certificates, this swap agreement was amended and restated in its entirety as the 2008C Swap Agreement. This agreement provides for the District to make payments to AIG-FP at a fixed rate of 5.135% on a notional amount that does not correspond to the outstanding principal amount of the 2008C Certificates and for AIG-FP to make reciprocal payments equal to the amount of interest payable with respect to the 2008C Certificates at the Weekly Interest Rate. The notional amount corresponds to original outstanding amount of the 1993B Certificates and the termination date of the agreement is July 1, 2020. The fair value of this amended and restated swap agreement was not calculated as of June 30, 2008 due to the short time period that it was in existence.

	Beginning Balance June 30, 2007	Additions	Reductions	Ending Balance June 30, 2008	Due Within One Year
Certificates of participation	\$ -	\$ 54,400,000	\$ -	\$ 54,400,000	\$ -
Deferred refunding charges	-	(3,541,791)	-	(3,541,791)	(272,445)
COP discount	-	(137,642)	-	(137,642)	(10,588)
Total	<u>\$ -</u>	<u>\$ 50,720,567</u>	<u>\$ -</u>	<u>\$ 50,720,567</u>	<u>\$ (283,033)</u>

Year ending June 30:	Principal	Interest	Total
2009	\$ -	\$ -	\$ -
2010	-	2,661,376	2,661,376
2011	330,000	2,777,900	3,107,900
2012	345,000	2,760,250	3,105,250
2013	370,000	2,741,590	3,111,590
2014-18	23,985,000	10,755,439	34,740,439
2019-22	29,370,000	2,491,326	31,861,326
Total	<u>\$ 54,400,000</u>	<u>\$ 24,187,881</u>	<u>\$ 78,587,881</u>

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

5. Long-Term Liabilities (continued)

Certificates of Participation (continued)

2008B Refunding Certificates of Participation

In March 2008, the Facilities Corporation issued \$54,575,000 in Water and Sewer Revenue Refunding Certificates of Participation, Series 2008B. The net proceeds of \$54,575,000 were used to advance refund the District's outstanding 2006B Certificates in the amount of \$54,025,000 maturing July 1, in the years 2024 through 2035, and to pay the costs of executing and delivering the 2008B Certificates. The proceeds of the 2008B Certificates were deposited in an irrevocable trust with an escrow agent and the 2006B Certificates were subsequently prepaid on March 27, 2008. As a result, these 2006B series certificates are considered to be defeased and the liability for those bonds has been removed from the statement of net assets. As of June 30, 2008, no certificates remain outstanding.

The advance refunding resulted in a difference between the reacquisition price (amount placed in the escrow account) and the net carrying amount of the old debt of \$719,951. Due to its immateriality, this difference was expensed. The District completed the current refunding to remove all onerous covenants relating to the 2006B Certificates. Interest for these certificates was paid weekly at the applicable Auction Rate for its respective Auction Period. There was unrest in the financial market and as investors lost confidence in these financial instruments, the Auction Rates suddenly began to significantly increase, resulting in interest expense much higher than anticipated. The advance refunding was a refunding of variable rate debt. Therefore, an economic gain did not result from the refunding and there was no difference in cash flows.

The 2008B Certificates include serial certificates due in varying amounts from \$3,805,000 to \$5,370,000 annually on July 1, in the years 2024 to 2035; with interest payable monthly at a variable rate for a weekly period. The District may prepay all or part of the certificates at any time at par while the certificates remain as variable interest rate securities. However, if the District elects to convert the certificates to a fixed interest rate, depending on the years remaining to maturity as of the fixed interest rate conversion date, the certificates have a no-call period ranging from 0 to 10 years and are subject to prepayment at par plus a premium ranging from 0% to 1% (declining by .5% every year).

	Beginning Balance June 30, 2007	Additions	Reductions	Ending Balance June 30, 2008	Due Within One Year
Certificates of participation	\$ -	\$ 54,575,000	\$ -	\$ 54,575,000	\$ -
COP discount	-	(133,430)	1,627	(131,803)	(4,882)
Total	\$ -	\$ 54,441,570	\$ 1,627	\$ 54,443,197	\$ (4,882)

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

5. Long-Term Liabilities (continued)

Certificates of Participation (continued)

2008B Refunding Certificates of Participation (continued)

Year ending June 30:	Principal	Interest	Total
2009	\$ -	\$ 1,430,835	\$ 1,430,835
2010	-	1,921,456	1,921,456
2011	-	1,923,208	1,923,208
2012	-	1,903,991	1,903,991
2013	-	1,902,239	1,902,239
2014-18	-	9,554,135	9,554,135
2019-23	-	9,555,887	9,555,887
2024-28	15,965,000	8,459,405	24,424,405
2029-33	22,970,000	4,797,657	27,767,657
2034-36	15,640,000	832,145	16,472,145
Total	\$ 54,575,000	\$ 42,280,958	\$ 96,855,958

2008A Refunding Certificates of Participation

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

The advance refunding resulted in a difference between the reacquisition price (amount placed in the escrow account) and the net carrying amount of the old debt of \$5,194,443. This difference, reported in the accompanying financial statements as a deferred refunding charge, is being charged to operations through the year 2030 using the straight line method. The certificates of participation payable are reported net of these deferred charges. The District completed the advance refunding to reduce the cash flows associated with its debt service payments over the next 23 years by \$10,205,515 and to obtain a net economic gain (difference between the present values of the debt service payments on the old debt and the new debt) of \$6,920,985.

The 2008A Certificates include serial certificates due in varying amounts from \$255,000 to \$8,090,000 annually from July 1, 2008 to July 1, 2030; with interest payable monthly at a variable rate for a weekly period.

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

5. Long-Term Liabilities (continued)

Certificates of Participation (continued)

2008A Refunding Certificates of Participation (continued)

The District may prepay all or part of the certificates at any time at par while the certificates remain as variable interest rate securities. However, if the District elects to convert the certificates to a fixed interest rate, depending on the years remaining to maturity as of the fixed interest rate conversion date, the certificates have a no-call period ranging from 0 to 10 years and are subject to prepayment at par plus a premium ranging from 0% to 1% (declining by .5% every year).

In connection with the issuance of the 2008A Certificates, the District entered into a Swap Agreement with UBS AG for the purpose of hedging against interest rate fluctuations arising from the issuance of the 2008A Certificates as variable rate obligations. The Swap Agreement provides for UBS AG to make payments to the District of 66% of 1-mo LIBOR on a notional amount corresponding to the outstanding principal amount and for the District to make reciprocal payments computed at a fixed rate of 3.100% on the same notional amount. This agreement has a termination date of July 1, 2030. The fair value of swap agreements as of a given date reflects the pricing that the District would receive to transfer its interest in the agreement to a third party at that date. This value is a function of the interest rates demanded by the market as of the date of the valuation. This value fluctuates as market interest rates increase or decrease over the term of the agreement. As of June 30, 2008, market interest rates were higher than the fixed interest rate associated with the payments by the District under the terms of this agreement. As a result, the net fair value of the agreement as of this date is a positive \$322,258, including accrued interest (i.e., a receipt would be received by the District to substitute the District's interest in the agreement to a third party). This calculation was based on certain interest rate curves reported by Bloomberg Professional Services as of June 30, 2008 and was prepared by the District's financial advisors, Fieldman, Rolapp and Associates.

	Beginning Balance June 30, 2007	Additions	Reductions	Ending Balance June 30, 2008	Due Within One Year
Certificates of participation	\$ -	\$ 56,855,000	\$ -	\$ 56,855,000	\$ 445,000
Deferred refunding charges	-	(5,194,443)	115,432	(5,079,011)	(230,864)
COP discount	-	(204,130)	4,536	(199,594)	(9,073)
Total	\$ -	\$ 51,456,427	\$ 119,968	\$ 51,576,395	\$ (205,063)

Year ending June 30:	Principal	Interest	Total
2009	\$ 445,000	\$ 1,471,243	\$ 1,916,243
2010	255,000	1,743,766	1,998,766
2011	260,000	1,737,405	1,997,405
2012	270,000	1,730,788	2,000,788
2013	275,000	1,720,791	1,995,791
2014-18	1,530,000	8,465,754	9,995,754
2019-23	1,785,000	8,211,662	9,996,662
2024-28	28,510,000	6,378,868	34,888,868
2029-31	23,525,000	1,155,909	24,680,909
Total	\$ 56,855,000	\$ 32,616,186	\$ 89,471,186

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

5. Long-Term Liabilities (continued)

Certificates of Participation (continued)

2007A Refunding Certificates of Participation

In May 2007, the Facilities Corporation issued \$20,710,000 in Water and Sewer Revenue Refunding Certificates of Participation, Series 2007A. The net proceeds of \$22,274,458 were used to currently refund the District's 1997A certificates for \$21,175,000, and to pay the municipal bond insurance policy premium and issuance costs. Following the prepayment, only the certificates maturing July 1, 2007 remained outstanding. The 1997A certificates subject to prepayment were deposited in an irrevocable trust with an escrow agent. As a result, these 1997A series certificates are considered to be defeased and the liability for those bonds has been removed from the statement of net assets.

The advance refunding resulted in a difference between the reacquisition price (amount placed in the escrow account) and the net carrying amount of the old debt of \$2,003,864. This difference, reported in the accompanying financial statements as a deferred refunding charge, is being charged to operations through the year 2023 using the straight line method. The certificates of participation payable are reported net of these deferred charges.

The certificates of participation included serial certificates due in varying amounts from \$75,000 to \$6,860,000 annually from July 1, 2009 to July 1, 2023; with interest payable semiannually at rates ranging from 4.00% to 5.00%.

	Beginning Balance June 30, 2007	Additions	Reductions	Ending Balance June 30, 2008	Due Within One Year
Certificates of participation	\$ 20,710,000	\$ -	\$ -	\$ 20,710,000	\$ -
Deferred refunding charges	(1,983,206)	-	123,950	(1,859,256)	(123,950)
COP premium	1,329,293	-	(83,081)	1,246,212	83,081
Total	\$ 20,056,087	\$ -	\$ 40,869	\$ 20,096,956	\$ (40,869)

Year ending June 30:	Principal	Interest	Total
2009	\$ -	\$ 1,024,500	\$ 1,024,500
2010	75,000	1,023,000	1,098,000
2011	75,000	1,020,000	1,095,000
2012	80,000	1,016,900	1,096,900
2013	80,000	1,013,700	1,093,700
2014-18	465,000	5,015,600	5,480,600
2019-23	13,075,000	4,292,650	17,367,650
2024	6,860,000	171,500	7,031,500
Total	\$ 20,710,000	\$ 14,577,850	\$ 35,287,850

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

5. Long-Term Liabilities (continued)

Certificates of Participation (continued)

2006A Certificates of Participation

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

The certificates of participation included \$106,320,000 of serial and term certificates due in varying amounts from \$2,965,000 to \$6,350,000 annually from July 1, 2012 to July 1, 2036, with interest payable semiannually beginning July 1, 2006, at rates per annum ranging from 3.75% to 5.00%.

	Beginning Balance		Ending Balance		Due Within One Year
	June 30, 2007	Additions	Reductions	June 30, 2008	
Certificates of participation	\$ 106,320,000	\$ -	\$ -	\$ 106,320,000	\$ -
COP premium	3,607,771	-	(125,852)	3,481,919	125,852
Total	\$ 109,927,771	\$ -	\$ (125,852)	\$ 109,801,919	\$ 125,852

Year ending June 30:	Principal	Interest	Total
2009	\$ -	\$ 5,119,444	\$ 5,119,444
2010	-	5,119,444	5,119,444
2011	-	5,119,444	5,119,444
2012	-	5,119,444	5,119,444
2013	3,725,000	5,030,850	8,755,850
2014-18	21,795,000	22,116,555	43,911,555
2019-23	27,610,000	16,319,240	43,929,240
2024-28	19,055,000	10,247,350	29,302,350
2029-33	19,810,000	5,797,625	25,607,625
2034-36	14,325,000	986,065	15,311,065
Total	\$ 106,320,000	\$ 80,975,461	\$ 187,295,461

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

5. Long-Term Liabilities (continued)

Certificates of Participation (continued)

2006B Certificates of Participation

In February 2006, the Facilities Corporation issued \$54,025,000 of Water and Sewer Revenue Variable Rate Certificates of Participation, Series 2006B. Proceeds of the sale of certificates are intended to be used for the principal purpose of financing a portion of the cost of the design, acquisition and construction of the 2006B Projects. The 2006B Projects include, among others, the following capital improvements to the District's Water and Sewer System: (1) expand the capacity of the Temecula RWRf; and (2) convert the Perris Valley RWRf to tertiary.

The certificates of participation included \$54,025,000 of serial and term certificates due in varying amounts from \$3,700,000 to \$5,400,000 annually from July 1, 2024 to July 1, 2035, with interest payable weekly at the applicable Auction Rate for its respective Auction Period.

In March 2008, all outstanding 2006B Certificates were refunded by the 2008B Certificates. The certificates are considered defeased and were removed from the District's books.

	Beginning Balance		Ending Balance		Due Within One Year
	June 30, 2007	Additions	Reductions	June 30, 2008	
Certificates of participation	\$ 54,025,000	\$ -	\$ (54,025,000)	\$ -	\$ -
COP discount	(329,572)	-	329,572	-	-
Total	\$ 53,695,428	\$ -	\$ (53,695,428)	\$ -	\$ -

2003A Refunding Certificates of Participation

In September 2003, the Facilities Corporation issued \$26,350,000 of Water and Sewer Revenue Refunding Variable Rate Certificates of Participation, Series 2003A to currently refund the 1993A certificates. Following the prepayment, no 1993A certificates remain outstanding. The certificates of participation included \$26,350,000 of serial certificates maturing in varying amounts from \$120,000 to \$2,700,000 annually from July 1, 2004 to July 1, 2023, with a variable interest rate payable with respect to any Weekly Interest Rate Period on the first business day of each calendar month commencing October 1, 2003.

	Beginning Balance		Ending Balance		Due Within One Year
	June 30, 2007	Additions	Reductions	June 30, 2008	
Certificates of participation	\$ 24,515,000	\$ -	\$ (125,000)	\$ 24,390,000	\$ 130,000
Deferred refunding charges	(1,294,529)	-	84,631	(1,209,898)	(84,631)
COP discount	(87,855)	-	5,491	(82,364)	(5,491)
Total	\$ 23,132,616	\$ -	\$ (34,878)	\$ 23,097,738	\$ 34,878

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

5. Long-Term Liabilities (continued)

Certificates of Participation (continued)

2003A Refunding Certificates of Participation (continued)

Year ending June 30:	Principal	Interest	Total
2009	\$ 130,000	\$ 783,452	\$ 913,452
2010	135,000	776,439	911,439
2011	140,000	773,550	913,550
2012	145,000	769,076	914,076
2013	145,000	765,829	910,829
2014-18	8,695,000	3,397,686	12,092,686
2019-23	12,300,000	1,670,528	13,970,528
2024	2,700,000	93,174	2,793,174
Total	\$ 24,390,000	\$ 9,029,734	\$ 33,419,734

2003B Certificates of Participation

In September 2003, the Facilities Corporation issued \$70,305,000 in Water and Sewer Revenue Variable Rate Certificates of Participation, Series 2003B. Proceeds of the sale of certificates were for the principal purpose of financing the cost of the design, acquisition and construction of the 2003B Projects. The 2003B Projects include, among others: (1) the construction of improvements to the Moreno Valley RWRf; (2) the construction of improvements to the Perris Valley RWRf; (3) the construction of improvements to the Temecula Valley RWRf; (4) the construction of the Temecula Effluent Disposal Pipeline; and (5) the prepayment of the Fish and Wildlife portion of the Bureau loan.

The certificates of participation included \$70,305,000 of term certificates due in varying amounts from \$1,275,000 to \$3,575,000 annually from July 1, 2004 to July 1, 2033 with a variable interest payable with respect to any Weekly Interest Rate Period on the first business day of each calendar month commencing on October 1, 2003.

	Beginning Balance June 30, 2007	Additions	Reductions	Ending Balance June 30, 2008	Due Within One Year
Certificates of participation	\$ 66,015,000	\$ -	\$ (1,575,000)	\$ 64,440,000	\$ 1,625,000
COP discount	(252,183)	-	9,699	(242,484)	(9,699)
Total	\$ 65,762,817	\$ -	\$ (1,565,301)	\$ 64,197,516	\$ 1,615,301

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

5. Long-Term Liabilities (continued)

Certificates of Participation (continued)

2003B Refunding Certificates of Participation (continued)

Year ending June 30:	Principal	Interest	Total
2009	\$ 1,625,000	\$ 2,073,074	\$ 3,698,074
2010	1,680,000	2,013,659	3,693,659
2011	1,735,000	1,963,642	3,698,642
2012	1,790,000	1,908,171	3,698,171
2013	1,840,000	1,854,298	3,694,298
2014-18	10,150,000	8,328,664	18,478,664
2019-23	11,875,000	6,602,455	18,477,455
2024-28	13,905,000	4,578,697	18,483,697
2029-33	16,265,000	2,210,164	18,475,164
2034	3,575,000	123,158	3,698,158
Total	\$ 64,440,000	\$ 31,655,982	\$ 96,095,982

2001A, 2001C Refunding Certificates of Participation

In April 2001, the Facilities Corporation issued the following refunding certificates of participation:

2001A Refunding Certificates of Participation

\$68,735,000 Water and Sewer Revenue Refunding Certificates of Participation, Series A to prepay \$68,185,000 of the District's 1991A Certificates of Participation, to fund a debt service reserve established for the certificates, and to pay the municipal bond insurance policy premium and issuance costs of the certificates. The certificates of participation include \$68,735,000 of serial certificates maturing in varying amounts from \$500,000 to \$5,415,000 annually from July 1, 2002 to July 1, 2020, with interest payable semiannually at rates per annum ranging from 3.40% to 5.375%. The 2001A Certificates with certificate payment dates on or after July 1, 2012, are subject to optional prepayment.

2001C Refunding Certificates of Participation

\$13,985,000 Water and Sewer Revenue Refunding Certificates of Participation, Series C to prepay \$13,165,000 of the District's 1993A Certificates of Participation, to fund a debt service reserve established for the certificates, and to pay the municipal bond insurance policy premium and issuance costs of the certificates. The certificates of participation include \$13,985,000 of serial certificates maturing in varying amounts from \$100,000 to \$1,770,000 annually from July 1, 2002 to July 1, 2013, with interest payable semiannually at rates per annum ranging from 4.0% to 4.250%. The 2001C Certificates with certificate payment dates on or after July 1, 2012, are subject to optional prepayment.

C-37

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

5. Long-Term Liabilities (continued)

Certificates of Participation (continued)

2001A, 2001C Refunding Certificates of Participation (continued)

2001A Refunding Certificates of Participation

	Beginning Balance June 30, 2007	Additions	Reductions	Ending Balance June 30, 2008	Due Within One Year
Certificates of participation	\$ 55,950,000	\$ -	\$ (2,865,000)	\$ 53,085,000	\$ 3,020,000
Deferred refunding charges	(4,671,399)	-	364,005	(4,307,394)	(364,005)
COP premium	1,581,752	-	(123,253)	1,458,499	123,253
Total	\$ 52,860,353	\$ -	\$ (2,624,248)	\$ 50,236,105	\$ 2,779,248

Year ending June 30:	Principal	Interest	Total
2009	\$ 3,020,000	\$ 2,593,588	\$ 5,613,588
2010	3,165,000	2,454,788	5,619,788
2011	3,290,000	2,322,563	5,612,563
2012	3,435,000	2,163,465	5,598,465
2013	3,610,000	1,978,538	5,588,538
2014-18	21,085,000	6,778,714	27,863,714
2019-21	15,480,000	1,186,250	16,666,250
Total	\$ 53,085,000	\$ 19,477,906	\$ 72,562,906

2001C Refunding Certificates of Participation

	Beginning Balance June 30, 2007	Additions	Reductions	Ending Balance June 30, 2008	Due Within One Year
Certificates of participation	\$ 11,040,000	\$ -	\$ (1,395,000)	\$ 9,645,000	\$ 1,455,000
Deferred refunding charges	(638,630)	-	109,480	(529,150)	(109,479)
COP discount	(7,698)	-	1,320	(6,378)	(1,320)
Total	\$ 10,393,672	\$ -	\$ (1,284,200)	\$ 9,109,472	\$ 1,344,201

Year ending June 30:	Principal	Interest	Total
2009	\$ 1,455,000	\$ 365,375	\$ 1,820,375
2010	1,515,000	305,975	1,820,975
2011	1,570,000	244,275	1,814,275
2012	1,635,000	180,175	1,815,175
2013	1,700,000	111,350	1,811,350
2014	1,770,000	37,613	1,807,613
Total	\$ 9,645,000	\$ 1,244,763	\$ 10,889,763

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

5. Long-Term Liabilities (continued)

Certificates of Participation (continued)

2001B Certificates of Participation

In April 2001, the Facilities Corporation issued \$51,370,000 in certificates of participation Series 2001B. Proceeds of the sale of certificates were intended to be used for the principal purpose of financing the cost of the design, acquisition and construction of the 2001B Projects. The 2001B Projects include, among others: (1) the construction of improvements to the Moreno Valley RWRP; (2) the construction of improvements to the Sanderson Lift Station; (3) the construction of the Perris Water Treatment Plant; and (4) the construction of the Menifee Desalter Plant.

The certificates of participation include \$51,370,000 of term certificates due in varying amounts annually from July 1, 2024 to July 1, 2030 with interest payable semiannually at rates per annum of 5.0%.

In January 2008, all outstanding 2001B Certificates outstanding were refunded by the 2008A Certificates. The certificates are considered defeased and were removed from the District's books.

	Beginning Balance June 30, 2007	Additions	Reductions	Ending Balance June 30, 2008	Due Within One Year
Certificates of participation	\$ 51,370,000	\$ -	\$ 51,370,000	\$ -	\$ -
COP discount	(749,984)	-	(749,984)	-	-
Total	\$ 50,620,016	\$ -	\$ 50,620,016	\$ -	\$ -

1998A Refunding Certificates of Participation

In January 1998, the Facilities Corporation issued \$39,655,000 Water and Sewer Revenue Refunding Certificates of Participation, Series A to currently refund \$36,420,000 of the District's 1991 Certificates of Participation, to fund a debt service reserve established for the certificates, and to pay the municipal bond insurance policy premium and issuance costs. The certificates of participation include \$12,835,000 of serial certificates maturing in varying amounts from \$70,000 to \$3,025,000 annually from July 1, 1998 to July 1, 2013; with interest payable semiannually at rates ranging from 3.60% to 5.00%. Also, in this certificate issue are \$26,820,000 of term certificates due in varying amounts on July 1, 2018, 2021 and 2023, with interest payable semiannually at rates ranging from 4.75% to 5.00%.

C-38

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

5. Long-Term Liabilities (continued)

Certificates of Participation (continued)

1998A Refunding Certificates of Participation (continued)

	Beginning Balance June 30, 2007	Additions	Reductions	Ending Balance June 30, 2008	Due Within One Year
Certificates of participation	\$ 27,420,000	\$ -	\$ (75,000)	\$ 27,345,000	\$ 80,000
Deferred refunding charges	(1,436,017)	-	86,161	(1,349,856)	(86,161)
COP discount	(537,330)	-	32,240	(505,090)	(32,240)
Total	\$ 25,446,653	\$ -	\$ 43,401	\$ 25,490,054	\$(38,401)

Year ending June 30:	Principal	Interest	Total
2009	\$ 80,000	\$ 1,317,661	\$ 1,397,661
2010	80,000	1,314,241	1,394,241
2011	85,000	1,310,651	1,395,651
2012	90,000	1,306,756	1,396,756
2013	95,000	1,302,534	1,397,534
2014-18	525,000	6,441,209	6,966,209
2019-23	17,310,000	5,482,942	22,792,942
2024	9,080,000	215,650	9,295,650
Total	\$ 27,345,000	\$ 18,691,644	\$ 46,036,644

1997A Refunding Certificates of Participation

In July 1997, the Facilities Corporation issued \$21,835,000 Water and Sewer Revenue Refunding Certificates of Participation, Series A to prepay \$19,605,000 of the District's 1991A Certificates of Participation, to fund a debt service reserve established for the certificates, and to pay the municipal bond insurance policy premium and issuance costs. The certificates of participation include \$1,655,000 of serial certificates maturing in varying amounts from \$55,000 to \$125,000 annually from July 1, 1998 to July 1, 2017; with interest payable semiannually at rates ranging from 3.75% to 5.25%. Also, in this certificate issue are \$20,180,000 of term certificates due in varying amounts on July 1, 2023, with interest payable semiannually at rates of 5.25%.

In May 2007, the 1997A refunding certificates maturing on July 1 in the years 2008 through 2023 totaling \$21,175,000 were refunded. These 1997A certificates were considered defeased and were removed from the District's books.

	Beginning Balance June 30, 2007	Additions	Reductions	Ending Balance June 30, 2008	Due Within One Year
Certificates of participation	\$ 75,000	\$ -	\$ (75,000)	\$ -	\$ -
Total	\$ 75,000	\$ -	\$(75,000)	\$ -	\$ -

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

5. Long-Term Liabilities (continued)

Certificates of Participation (continued)

1993B Refunding Certificates of Participation

In May 1993, the Facilities Corporation issued \$65,795,000 in Refunding Certificates of Participation Series 1993B. Proceeds of the sale of certificates were used to provide monies for the partial defeasance of \$59,350,000 Series 1991 certificates of participation, to pay the municipal bond insurance policy premium for the certificates and to pay the costs of issuance. The certificates of participation are subject to mandatory repayment in varying amounts from \$165,000 to \$7,570,000 annually from July 1, 1993 to July 1, 2020, with interest payable semiannually at the weekly interest rate (as determined by the Remarketing Agent) unless converted to a fixed interest rate at the District's option.

The District may prepay all or part of the certificates at any time at par while the certificates remain as variable interest rate securities. If, however, the District elects to convert the certificates to a fixed interest rate, the certificates are subject to prepayment at par plus a premium ranging from 0% to 2% (declining by .5% every two years) depending on the years remaining to maturity as of the fixed interest rate conversion date.

The District entered into a Swap Agreement with AIG Financial Products Corporation (AIG-FP) for the purpose of hedging against interest rate fluctuations arising from the issuance of the 1993B Certificates as variable rate obligations. The Swap Agreement provided for the District to make payments to AIG-FP on a fixed-rate basis on notional amounts totaling \$64,070,000 and for AIG-FP to make reciprocal payments based on a variable-rate basis which results in a fixed annual rate of interest to the District of 5.135% on the certificates.

In June 2008, all outstanding 1993B Certificates were refunded by the 2008C Certificates. The certificates are considered defeased and were removed from the District's books. The associated Swap Agreement with AIG-FP was amended and restated in its entirety with the issuance of the 2008C Certificates.

	Beginning Balance June 30, 2007	Additions	Reductions	Ending Balance June 30, 2008	Due Within One Year
Certificates of participation	\$ 59,055,000	\$ -	\$ (59,055,000)	\$ -	\$ -
COP discount	(2,608,893)	-	2,608,893	-	-
Total	\$ 56,446,107	\$ -	\$(56,446,107)	\$ -	\$ -

1991 Certificates of Participation

In March 1991, the Facilities Corporation issued \$128,690,000 in Certificates of Participation Series 1991. Proceeds of the sale of certificates were used for the principal purpose of financing the cost of the design, acquisition and construction of certain wastewater capital improvements (the 1991 Project) to the District's water and sewer system.

The certificates of participation include \$26,815,000 of serial certificates maturing in varying amounts from \$1,440,000 to \$2,910,000 annually from July 1, 1993 to July 1, 2005, with interest payable semiannually at rates ranging from 5.1% to 7.5%. Also, in this issue are \$101,875,000 of term certificates due in varying amounts on July 1, 2008, 2012, 2020 and 2023, with interest

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

5. Long-Term Liabilities (continued)

Certificates of Participation (continued)

1991 Certificates of Participation (continued)

payable semiannually at rates ranging from 6% to 6.75%. Certificates maturing prior to July 1, 2002 and on July 1, 2012 are not subject to prior redemption; Certificates maturing July 1, 2002 and after (except those maturing on July 1, 2012), may be called prior to maturity at par plus a premium of 2% in 2002, 1% in 2003, and 0% thereafter. The term certificates are subject to mandatory sinking fund requirements beginning July 1, 2006, in amounts varying from \$3,105,000 in 2006 to \$9,115,000 in 2023.

	Beginning Balance June 30, 2007	Additions	Reductions	Ending Balance June 30, 2008	Due Within One Year
Certificates of participation	\$ 16,695,000	\$ -	\$ -	\$ 16,695,000	\$ -
Total	\$ 16,695,000	\$ -	\$ -	\$ 16,695,000	\$ -

Year ending June 30:	Principal	Interest	Total
2009	\$ -	\$ 1,126,913	\$ 1,126,913
2010	3,775,000	999,506	4,774,506
2011	4,030,000	736,088	4,766,088
2012	4,300,000	454,950	4,754,950
2013	4,590,000	154,912	4,744,912
Total	\$ 16,695,000	\$ 3,472,369	\$ 20,167,369

C-40

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

5. Long-Term Liabilities (continued)

General Obligation Bonds

The District's general obligation bonds are callable prior to maturity, subject to certain call premiums. The liability for the general district bonds and improvements within the respective special districts, and the funds for retirement thereof, are derived from a bond redemption levy in the assessed valuation of the individual districts.

General obligation bonds consist of the following at June 30:

	2008	2007
1995 General obligation refunding bonds: Interest rates of the various bond issues outstanding range from 3.9% to 5.5%. Bonds mature annually in varying amounts through 2009.	\$ 1,200,000	\$ 2,340,000
2005 General obligation bonds: Interest rates of the various bond issues outstanding range from 3.0% to 5.0%. Bonds mature annually in varying amounts through 2035.	16,940,000	17,605,000
Total	18,140,000	19,945,000
Less current portion	1,880,000	1,805,000
Total long-term general obligation bonds	\$ 16,260,000	\$ 18,140,000

At June 30, 2008, general obligation bonds authorized but not issued total \$579,275,000.

	Beginning Balance June 30, 2007	Additions	Reductions	Ending Balance June 30, 2008	Due Within One Year
General obligation bonds	\$ 19,945,000	\$ -	\$ (1,805,000)	\$ 18,140,000	\$ 1,880,000
Deferred refunding charges	(51,905)	-	29,660	(22,245)	(22,245)
Net bond premium/discount	197,502	-	30,170	227,672	(18,100)
Total	\$ 20,090,597	\$ -	\$ (1,745,170)	\$ 18,345,427	\$ 1,839,655

Year ending June 30:	Principal	Interest	Total
2009	\$ 1,880,000	\$ 826,445	\$ 2,706,445
2010	710,000	734,345	1,444,345
2011	495,000	710,245	1,205,245
2012	515,000	690,045	1,205,045
2013	535,000	669,045	1,204,045
2014-18	2,625,000	3,029,200	5,654,200
2019-23	2,900,000	2,474,058	5,374,058
2024-28	2,995,000	1,728,875	4,723,875
2029-33	3,170,000	990,250	4,160,250
2034-36	2,315,000	177,375	2,492,375
Total	\$ 18,140,000	\$ 12,029,883	\$ 30,169,883

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

5. Long-Term Liabilities (continued)

Reimbursable Agreements

The District enters into agreements with developers whereby certain facilities will be built by them that will support future development beyond their own. As this new development occurs, a portion of the connection fee revenue is allocated to a "reimbursement pool account" and a determination is made semi-annually based on a priority basis to remit these funds back to them.

Debt Service Reserve Funds

The District is required to maintain a Debt Service Reserve Fund to be used for the payment of principals and interest of its Certificates of Participation Bonds in the event that the District has not provided the Trustee with sufficient funds by the Installment Payment date to make the required Installment Sale Payments. The current required reserve amount as determined by the bond documents and the reserve balance at June 30, 2008 for each outstanding bond issue is:

Description	Required	Actual	Excess/(Deficiency)
1991/1998A COP	\$ 5,267,746	\$ 5,500,000	\$ 232,254
2001A/2007A COP	7,203,000	7,203,000	-
1993A/2001C/2003A COP	3,403,500	3,403,500	-
1993B/2008C COP	5,440,000	5,440,058	58
2001B/2008A COP	5,387,810	5,387,810	-
2003B COP	4,357,470	4,356,207	(1,263)*
2006A COP	8,361,404	8,587,503	226,099
2006B/2008B COP	4,253,624	4,256,378	2,754

* The 2003B COP reserve amount was invested in a State of California municipal bond at June 30, 2008. The shortage is due to market fluctuation; however this bond was sold on July 1, 2008. Also, the 2003B COP was refunded on July 30, 2008 by the 2008E COP and a new reserve amount was established.

Master Resolution

The District adopted Resolution No. 2667, entitled "A Resolution of the Board of Directors of the Eastern Municipal Water District Providing for the Allocation of Water and Sewer Revenues" (the "Master Resolution") to establish various reserves and covenants of which the following are required to be maintained:

- 1) Debt Coverage Ratio
The District has covenanted that Net Water and Sewer Revenues shall be at least 1.15 times the sum of all Debt Service on all Parity Obligations, plus the amount of all deposits required to be made to the Operating Reserve Fund. As of June 30, 2008, the District's debt coverage ratio was 3.3 times.
- 2) Operating Reserve Fund
The District has covenanted that it will maintain a minimum of ¼ of its annual maintenance and operating costs as set forth in its operating budget in a separate reserve fund. This reserve was \$30,329,815 at June 30, 2008 and \$29,126,581 at June 30, 2007.

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

5. Long-Term Liabilities (continued)

Defeasance of Debt

The District defeased the 1989 General Obligation Bonds and the 1993B Certificates of Participation by placing the proceeds of the new debt in irrevocable trusts to provide for all future debt service payments on the defeased debt. Accordingly, the trust's assets and the liability for the defeased debt issue are not included on the District's statement of net assets. The outstanding balance of the 1989 GO bonds was \$1,375,000 and \$2,650,000 at June 30, 2008 and 2007, respectively. The 1993B COP was defeased in June 2008 and the outstanding balance of the debt on June 30 was \$11,529,000. This balance was fully prepaid on July 18, 2008.

6. Defined Benefit Pension Plan

Plan Description

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 can be obtained from its executive office at 400 Q Street, Sacramento, CA 95814.

All full-time District employees are eligible to participate in PERS with benefits vesting after five years of service. District employees who retire at age 55 with five years of credited service are entitled to an annual retirement benefit, payable monthly for life, in increasing percentage increments up to 2.5% of their average salary during their last year of employment, for each year of credited service.

Funding Policy

District employees are required to contribute 8% of their annual salary to PERS. Of this 8%, the District funds 7% as agreed to in negotiations with its union. The District is required to contribute the remaining amount necessary to fund the benefits of its members, using the actuarial basis recommended by the PERS actuaries and actuarial consultants and adopted by the Board of Administration. For the year ended June 30, 2008, the amount contributed by the District on behalf of the employees is \$3,079,987. The required employer contribution rate for fiscal year ended June 30, 2008 is 9.448% as determined by the annual PERS valuation. However, the District's effective employer contribution rate is 0% due to prepayment of the annual contribution amount in July 2007.

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

6. Defined Benefit Pension Plan (continued)

Annual Pension Cost

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). The ARC for the period July 1, 2007 to June 30, 2008 has been determined by an actuarial valuation of the plan as of June 30, 2005. The contribution rate for the indicated period is 9.737% of payroll for the Retirement Program. In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of June 30, 2008, the contribution rate, as modified by any amendments for the year, is multiplied by the payroll of covered employees that were paid during the period from July 1, 2007 to June 30, 2008.

A summary of principal assumptions and methods used to determine the ARC is shown below.

Valuation date	June 30, 2005
Actuarial cost method	Entry age actuarial cost method
Amortization method	Level percent of payroll
Average remaining period	24 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	3.25% to 14.45% depending on age, service, and type of employment
Inflation	3.00%
Payroll growth	3.25%
Individual salary growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%

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 about 6% of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30 year amortization period.

The total contribution paid to the PERS for 2008 and 2007 was \$3,519,985 and \$3,129,669, respectively. In 2008, the District paid \$3,079,987 and the employees paid \$439,998. In 2007, the District paid \$2,738,460 and the employees paid \$391,209. The contributions were made in accordance with actuarially determined requirements computed through an actuarial valuation performed prior to the beginning of each fiscal year by the PERS Actuarial Division. The combined employer and employee contribution consisted of 8.0% of current covered payroll.

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

6. Defined Benefit Pension Plan (continued)

Trend Information

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. The District's specific three-year trend information follows:

Three-year trend information for PERS (dollar amounts in millions):

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
06/30/06	\$ 2.89	100%	\$ -
06/30/07	3.21	100%	-
06/30/08	3.52	100%	-

The following Schedule of Funding Progress for PERS (dollar amounts in millions) shows the recent history of the actuarial value of assets, actuarial accrued liability, their relationship, and the relationship of the unfunded actuarial accrued liability to payroll. This schedule presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Valuation Date	(A) Entry Age Actuarial Liability (AAL)	(B) Actuarial Value of Assets	(C) Unfunded AAL (UAAL) (A)-(B)	Funded Ratio (B)/A)	(D) Covered Payroll	UAAL as a Percentage of Covered Payroll (C)/(D)
06/30/05	\$ 149.00	\$ 137.93	\$ 11.07	92.6%	\$ 34.17	32.4%
06/30/06	170.08	153.22	16.86	90.1%	37.67	44.8%
06/30/07	194.72	168.00	26.72	86.3%	42.44	63.0%
06/30/08	(1)	(1)	(1)	(1)	44.00(2)	(1)

(1) Information not available.

(2) Actual PERS wages per District payroll records.

The information provided above for the Schedule of Funding Progress is based upon the most current information available from PERS.

7. Defined Contribution Plan

The District has a 401(a) money purchase defined contribution plan (Plan) covering all employees of the District who have completed one year of service. The Plan was adopted in January 1978 and may be amended by the District provided the trustee joins in such amendment. The District is required to contribute 7.15% of each eligible employee's compensation up to a maximum annual compensation of \$16,500. The District's contributions to the Plan were \$765,130 and \$790,714 in 2008 and 2007, respectively.

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

8. Postemployment Benefits Other Than Pensions

During the year ended June 30, 2008, the District implemented GASB Statement No. 45 which changed the accounting and financial reporting used by local government employers for postemployment benefits. Previously, the costs of such benefits were generally recognized as expenditures/expenses of local government employers on a pay-as-you-go basis. The new reporting requirements for these benefit programs as they pertain to the District are as set forth in the following.

Plan Description

Health Care Benefits

The District provides postemployment health care benefits to all qualified employees who meet the District's California Public Employees' Retirement System (PERS) plan requirements. This plan is an agent multiple-employer defined benefit OPEB plan. This plan contributes an amount for the retiree and dependents, as applicable, with eligibility based on the Health Benefit Vesting Requirements found in Government Code Section 22893 (Vesting for Contracting Agency Employees). This amount is 100% of the greater of the Blue Shield HMO or PERS Kaiser premium amounts. The District also provides healthcare benefits to elected official retirees in accordance with the District's Ordinance No. 70. This plan contributes up to the District's contribution amount for employees and dependent coverage.

Life Insurance Benefits

In addition, the District provides postemployment group life insurance to eligible retired employees and elected officials with a death benefit of \$10,000 up to age 70 and \$5,000 thereafter for employees or \$2,500 for elected officials.

The benefit provisions for retired employee health care and life insurance are established and amended through the memorandum of understanding between the District and the Union. The benefit provisions for retired elected official life insurance are established through the District's contract with the life insurance company. The District does not issue separate stand-alone financial reports for these plans.

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

8. Postemployment Benefits Other Than Pensions (continued)

Funding Policy and Annual OPEB Cost

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

Contribution rates:		
District	100% of pay-as-you-go amounts for employee and elected official monthly health care and life premiums	
Plan members	Retirees pay the portion of the premium not paid by the District; for example, if they elect a more expensive plan than Blue Shield HMO or PERS Kaiser	
Annual required contribution		\$ 8,021,000
Contributions made		<u>(1,802,051)</u>
Increase in net OPEB obligation		6,218,949
Net OPEB obligation – beginning of year		-
Net OPEB obligation – end of year		<u>\$ 6,218,949</u>

The District's annual OPEB cost which is equal to its annual required contribution has been recognized as a part of the operating expenses of the District in the accompanying financial statements. Consistent with the District's expense classification policies, the portion of the annual OPEB cost that was physically paid to retirees during the fiscal year has been included in the functional classifications of the various operational components of the District. The unpaid portion of the accrued actual OPEB cost has been presented on a separate line in the operating section of the statement of revenues, expenses, and changes in net assets.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2008 are shown in the following table. The District implemented GASB Statement No. 45 for the June 30, 2008 fiscal year end, so information is not available for the prior two years.

Plan	Year Ended	Annual OPEB Cost	Actual Contributions	Percentage of OPEB Cost Contributed	Net OPEB Obligation
Retired Employees/Elected Officials Healthcare and Life Insurance Plans	06/30/08	\$ 8,021,000	\$ 1,802,051	22.5%	\$ 6,218,949

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

8. Postemployment Benefits Other Than Pensions (continued)

Funded Status and Funding Progress

The funded status of the plans as of June 30, 2006, the plan's most recent actuarial valuation date, is shown in the following table. Actuarially determined amounts were not calculated separately for each plan.

Actuarial accrued liability (a)	\$ 83,666,000
Actuarial value of plan assets (b)	-
Unfunded actuarial accrued liability (funding excess) (a) – (b)	<u>\$ 83,666,000</u>
Funded ratio (b)/(a)	N/A
Covered Payroll – active plan members (c)	\$ 36,369,000
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll ((a)-(b))/(c))	230.00%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

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

Valuation date	June 30, 2006		
Actuarial cost method	Entry age normal		
Amortization method	Level percent of payroll		
Remaining amortization period	30 years as of the valuation date		
Asset valuation method	N/A – no assets		
Actuarial assumptions:			
Investment rate of return	4.50%		
General inflation rate	3.00%		
Payroll growth	3.25%		
Healthcare trend rate (based on 2007 actual premiums)	Year	HMO	PPO
	2007	11.00%	12.00%
	2008 – 2016	10.25%	11.15%
	2017+	4.50%	4.50%

The Schedule of Funding Progress on the following page shows the actuarial value of assets, actuarial accrued liability, their relationship, and the relationship of the unfunded actuarial accrued liability to payroll for June 30, 2006. The District implemented GASB Statement No. 45 this fiscal year. The District's only actuarial valuation performed to date was dated June 30, 2006.

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

8. Postemployment Benefits Other Than Pensions (continued)

Actuarial Methods and Assumptions (continued)

Actuarial Valuation Date	(A)	(B)	(C)	Funded Ratio (B)/A	(D)	UAAL as a Percentage of Covered Payroll (C)/(D)
	Entry Age Actuarial Liability (AAL)	Actuarial Value of Assets	Unfunded AAL (UAAL) (A)- (B)		Covered Payroll	
06/30/06	\$83,666,000	\$ -	\$83,666,000	N/A	\$36,369,000	230.00%

9. Restricted and Unrestricted Net Assets

Restricted Net Assets

Restricted for debt service/covenants represents constraints placed on certain net assets as required by the District's Master Resolution and third party general obligation bondholders. Restricted for construction represents constraints placed on certain net assets as a result of legally restricted monies received and unspent from developers as required by State law.

Unrestricted Net Assets

As required by GASB Statement No. 34, net assets have been classified according to guidelines established for restricted assets. However, the unrestricted assets, although not legally restricted, have been established pursuant to Board Resolution No. 3359 and are primarily composed of reserves for various purposes. The unrestricted net assets at June 30, 2008 consist of:

Replacement and system betterment reserve	\$ 88,504,565
Operational debt service reserve	7,794,076
General liability and workers comp. reserve	1,178,378
Other reserves	<u>4,419,438</u>
Total unrestricted net assets	<u>\$ 101,896,457</u>

10. Tunnel Water Seepage Agreement

In 1951, the District entered into an agreement with the Metropolitan Water District setting forth the terms and conditions of annexation to the Metropolitan Water District service area. Among other provisions, the agreement provided that for all future time, the tunnel water seepage of the Metropolitan Water District's San Jacinto tunnel would come under the control and be delivered free to the District. In 1953, the District established an intangible asset that represented the value of this agreement based on an engineering report by Warren O. Wagner, consulting hydraulic engineer. The original appraisal was established at \$1,669,000 based on an annual value of this additional water at 5,840 acre feet per year at \$10.00 per acre foot and a money value of 3.5%. This value was reevaluated in 1957 with Mr. Wagner and a revised value of \$1,750,900 was established based on \$12.00 per acre foot and a 4.0% value of money.

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

11. Commitments

Construction Contracts

The District is committed to approximately \$121,982,970 million of open construction contracts as of June 30, 2008. The ten largest contracts outstanding include:

	Contract Amount	Balance To Complete
Perris Valley RWRP Plant No. 3 Expansion	\$ 150,044,159	\$ 96,972,388
Moreno Valley RWRP Fuel Cell Cogeneration System	7,557,306	4,333,867
Cactus Avenue Pump Station	9,663,318	3,353,027
San Jacinto Valley Interceptor Sewer	14,718,806	2,944,576
Sunnymead Blvd. 6" & 8" Pipeline Replacement	5,705,753	2,772,581
Hemet/San Jacinto Valley IRRP Well Pumping Facilities	4,572,356	2,479,978
Cactus Avenue Feeder Pipeline	5,265,920	1,837,227
Sun City, Norma, Pebble Beach Pipeline Replacement	1,887,280	1,787,280
Tally Rd Tank, Pipeline & Site Improvements	3,356,760	1,213,976
Scott Road Booster Pump Station	1,252,777	1,051,277
Total	\$ 204,024,435	\$ 118,746,177

Claims and Judgments

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

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

Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. The liability for claims and judgments is included in other accrued expenses. Changes in claims payable for the years ended June 30 are as follows:

	2008	2007
Unpaid claims, beginning	\$ 1,210,785	\$ 983,004
Incurred claims and changes in estimates	1,138,901	1,419,198
Claim payments	(1,151,461)	(1,191,417)
Unpaid claims, ending	\$ 1,198,225	\$ 1,210,785

There was no significant reduction in insurance coverage by major categories of risk from fiscal year 2006/07 to fiscal year 2007/08. Furthermore, there has been no settlement which exceeded insurance coverage for the past three fiscal years.

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

11. Commitments (continued)

Special Funding District Bonds

These bonds are not direct liabilities of the District, and their payment is secured by valid liens on certain lands. Reserves have been established from the bond proceeds to meet delinquencies should they occur. Neither the faith and credit nor the taxing power of the District is pledged to the payment of the bonds. If delinquencies occur beyond the amounts held in those reserves, the District has no duty to pay those delinquencies out of any other available funds. The District acts solely as an agent for those paying assessments or special taxes and the bond holders. The Special Funding District Bonds outstanding at June 30, 2008 and 2007, were \$222,135,527 and \$203,561,272 respectively, and are not included in the District's financial statements.

12. Contingencies

The District is a defendant in various legal actions. Management believes that the ultimate resolution of these actions will not have a significant effect on the District's financial position or results of operations.

13. Santa Ana Watershed Project Authority

The Santa Ana Watershed Project Authority was formed in 1975, pursuant to the provisions of Article 1, Chapter 5, Division 7, Title 1 of the Government Code of the State of California relating to the joint exercise powers common to public agencies, for the purpose of undertaking projects for water quality control and protection and pollution abatement in the Santa Ana Watershed. The authority is governed by a 5-member Board of Commissioners, consisting of one member from each of the five-member agencies. An alternate from each member agency is also designated. Eastern Municipal Water District became a member in September 1984. An independent audit report is prepared annually and is available for public inspection at the offices of the Authority.

14. Advances from Developers

The District receives deposits from developers in advance to cover various costs for both sewer and water related projects. At June 30, 2008 and 2007, the amount of refundable deposits was \$36,481,691 and \$37,159,800, respectively. However, when a project is closed, the developer is refunded only the amount remaining after offsetting all accumulated work in process costs. If costs exceed the deposit amount during the project, the developer is billed for additional deposits.

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

15. Subsequent Events

A. Subsequent to June 30, 2008, the District issued several certificates of participation. The following table below shows details of these issuances.

Debt Issuance	Amount Issued	Amount Refunded	Final Maturity	Range of Interest Rates
2008D refunding COP	\$ 54,760,000	\$ 51,525,000	July 1, 2023	Variable
2008E refunding COP	64,110,000	62,815,000	July 1, 2033	Variable
2008F COP	50,000,000	-	July 1, 2038	Variable
2008G COP	50,000,000	-	July 1, 2038	Variable
2008H COP	140,035,000	-	July 1, 2035	Fixed 5.00 – 5.13%

B. Soboba Settlement Act – This Act was signed into Law by the President of the United States of America on July 31, 2008. This Act approved the Settlement Agreement between the Soboba Band of Luiseno Indians; the United States of America (as trustee for the Soboba Tribe); the Lake Hemet Municipal Water District (LHMWD); MWD and the District. The Soboba Tribe negotiated a water rights claim with these local water districts for the Tribe's lost water resources from springs and creeks on its Reservation caused by construction of the San Jacinto Tunnel by MWD, and by construction of the Lake Hemet by LHMWD.

The Settlement Agreement provides that:

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

The local agencies will pay \$7,000,000 to access the Tribe's unused water. The federal government will pay \$10,000,000 toward the cost of constructing facilities. The District's share for the construction of the facilities and use of Tribe's water is estimated to be \$5,200,000. Formalization of the settlement may take 2 to 3 years. The District has not begun actions to open escrow on the land or to deposit designated funds.



EMWD uses mulch in its demonstration garden to reduce evaporation and save thousands of gallons of water each year.



Using a broom instead of a hose to clean driveways or sidewalks will save 80 gallons of water every time.

Supplementary Information Section

Water-Use It Wisely

EMWD will soon launch its long-term water-use efficiency campaign, "Water-Use It Wisely." This campaign promotes awareness and education of simple ways to use water wisely, such as use a layer of mulch around plants to reduce evaporation, and use a broom instead of a hose to clean driveways and sidewalks.

*There are a number of ways to save water...
...and they all start with you*



Eastern Municipal Water District
Schedule of Revenues, Expenses and Changes in Net Assets –
Actual and Budget
For the Year Ended June 30, 2008

The table below compares revenues and expenses of the District compared to budgeted and/or projected figures used by the District to monitor performance during the year. The overall change in net assets was budgeted at a positive \$95.9 million vs. an actual of \$67.8 million. The unfavorable variance of \$28.1 million is attributed to a negative variance in income before capital contributions of \$26.4 million and in capital contributions of \$1.7 million. Explanations for major variances are included on the following pages.

	2007/08 Actual	2007/08 Budget	Variance with Budget- Positive (Negative)	%
Revenues				
Water sales	\$ 94,135,642	\$ 97,950,981	\$ (3,815,339)	-4.1%
Sewer service charges	54,408,172	53,180,944	1,227,228	2.3%
Recycled water sales	2,564,656	2,750,000	(185,344)	-7.2%
Connection fees	30,706,687	66,684,496	(35,977,809)	-117.2%
Interest	20,579,581	23,420,000	(2,840,419)	-13.8%
Property taxes – general levy	34,528,767	32,858,904	1,669,863	4.8%
Property taxes – bond levy	3,119,336	2,259,408	859,928	27.6%
Standby charges	4,868,154	4,698,500	169,654	3.5%
Grant revenues	11,261,996	-	11,261,996	100.0%
Gain/(Loss) on disposal of fixed assets	6,647,392	(1,500,000)	8,147,392	122.6%
Other non-operating revenues	7,220,589	7,356,800	(136,211)	-1.9%
Total Revenues	270,040,972	289,660,033	(19,619,061)	-7.3%
Expenses				
Purchased water	41,653,430	44,003,673	2,350,243	5.6%
Water operations	38,447,533	39,947,831	1,500,298	3.9%
Sewer operations	39,976,740	40,804,373	827,633	2.1%
Recycled water operations	5,071,116	5,329,032	257,916	5.1%
General and administrative	30,138,792	26,929,502	(3,209,290)	-10.6%
Depreciation and amortization	51,030,538	50,000,000	(1,030,538)	-2.0%
Net other postemployment benefits	6,218,949	-	(6,218,949)	-100.0%
Interest – certificates of participation	21,953,962	22,600,201	646,239	2.9%
Interest – bond and other	1,461,446	1,532,022	70,576	4.8%
Other expenses	4,605,098	2,600,000	(2,005,098)	-43.5%
Total expenses	240,557,604	233,746,634	(6,810,970)	-2.8%
Income before contributions	29,483,368	55,913,399	26,430,031	89.6%
Capital contributions	38,350,704	40,000,000	(1,649,296)	-4.3%
Changes in net assets	\$ 67,834,072	\$ 95,913,399	\$ (28,079,327)	-41.4%

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Eastern Municipal Water District
Notes to Supplementary Schedule
Major Budget Variances

The following denotes explanations for some of the major variances between actual and budget for the previous table:

- Budgeted water sales revenue exceeded the actual amount primarily due to the budgeted water sales exceeding actual by 4,133 acre feet (AF) or 4.0%. This variance relates to a slower than estimated growth level due to economic conditions and the conservation efforts of District customers.
- Sewer service charges were primarily higher due to an average rate 3.7% greater than budget.
- Connection fees were budgeted at 8,438 water hook ups and 9,315 sewer hook ups. Actual connections were 3,340 and 4,850, or 48% and 60% less than expected, respectively, due to a slower than estimated growth level in development.
- Interest income was lower than budget due to a higher than anticipated average yield on investments, but a lower investments portfolio balance because the anticipated "new money" COPs were not sold until after June 30, 2008.
- The increase in property taxes was primarily due to an actual assessed valuation increase of 18%, while the budgeted increase was 10%.
- General obligation bond revenues increased due to a higher assessed valuation tax base than what was assumed for the budget.
- Grant revenues were previously shown on the financial statements as capital contributions, therefore no separate budget amount was determined.
- Gain/loss on disposal of fixed assets was higher primarily due a \$7.4 million gain on the sale of 57 acres of land and a gain of \$1.6 million on the sale of capacity rights relating to the brine conveyance pipeline and processing systems, offset by a \$2.4 million write-off of a software replacement project. The gains were not anticipated in the budgeted amount.
- Purchased water costs were lower due to decreased water purchases relating to lower than expected water sales.
- Water operating costs were lower mainly due to energy costs for pumping plants that were less than anticipated and implementation of the Derceto energy optimization program which provides pump run schemes to shift usage from peak demand times to off-peak.
- Sewer operating costs were lower mainly due to energy costs for treatment facilities that were less than anticipated.
- General and administrative expenses were higher mainly due to unexpected legal costs relating to a lawsuit the District is involved in.

Eastern Municipal Water District

Notes to Supplementary Schedule

Major Budget Variances (continued)

- Depreciation expenses were higher due to increased depreciable assets from closing out and capitalizing more construction in progress than what was budgeted.
- Net other postemployment benefits expense was not budgeted for this fiscal year. This is the initial year of implementation for GASB Statement No. 45 which required this annual expense to be included in the financial statements.
- Other expenses were greater this year by \$2.0 million primarily due to higher than expected costs relating to environmental reports and studies.
- Capital contributions were lower this year by \$1.6 million due to a decline in development, which was greater than anticipated.

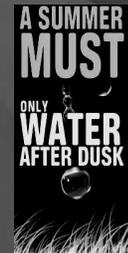


There are many beautiful alternatives to water thirsty lawns. Hardscape, for example, adds texture, beauty, and functionality.

Statistical Section

Water Shortage Contingency Plan (WSCP)

EMWD is responsible for conserving the available water supply and implementing a contingency plan in times of drought, supply reductions, failure of water distribution systems, or emergencies. Stage I of EMWD's four stage WSCP calls for voluntary water use practices such as irrigating outdoors between 9:00 pm and 6:00 am only; Stage IV includes mandatory water use restrictions, such as banning all new turf installations.



Eastern Municipal Water District
Statistical Section

This part of the District's comprehensive annual financial report presents detailed information as a context for understanding what the information in the accompanying financial statements, notes to the basic financial statements, and required supplementary information says about the District's overall financial health.

Contents

Financial Trends

These schedules contain trend information to help the reader understand how the District's financial performance and well-being have changed over time.

Revenue Capacity

These schedules contain information to help the reader assess the factors affecting the District's ability to generate revenues.

Debt Capacity

These schedules present information to help the reader assess the affordability of the District's current levels of outstanding debt and the District's ability to issue additional debt in the future.

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place and to help make comparisons over time and with other agencies.

Operating Information

These schedules contain information about the District's operations and resources to help the reader understand how the District's financial information relates to the services the District provides and the activities it performs.

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. *The District implemented GASB Statement 34 in 2002.*

NET ASSETS BY COMPONENT
LAST SEVEN FISCAL YEARS

<u>Fiscal Year</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Invested in capital assets, net of related debt	\$ 564,160,887	\$ 615,364,770	\$ 670,647,558	\$ 747,790,921	\$ 864,024,679	\$ 963,472,752	\$1,097,667,937
Restricted for debt service/covenants	45,553,269	45,912,373	49,428,231	50,932,809	58,964,117	57,377,104	56,443,385
Restricted for construction	106,195,442	140,113,828	186,769,808	179,216,380	193,659,075	238,268,776	133,617,326
Unrestricted	<u>130,885,167</u>	<u>90,953,153</u>	<u>84,967,519</u>	<u>96,710,649</u>	<u>86,541,422</u>	<u>62,672,401</u>	<u>101,896,457</u>
Total net assets	<u>\$ 846,794,765</u>	<u>\$ 892,344,124</u>	<u>\$ 991,813,116</u>	<u>\$1,074,650,759</u>	<u>\$1,203,189,293</u>	<u>\$1,321,791,033</u>	<u>\$1,389,625,105</u>
% Increase		5.4%	11.1%	8.4%	12.0%	9.9%	5.1%

Note: The information shown is retroactive to implementation of GASB Statement No. 34.

Source: Eastern Municipal Water District

CHANGES IN NET ASSETS
LAST SEVEN FISCAL YEARS

Fiscal Year	Operating Revenues		Operating Expenses ²		Operating Loss	Total Nonoperating Revenues/ (Expenses)	Income before Capital Contributions	Capital Contributions ¹	Change in Net Assets
	Water	Wastewater	Water	Wastewater					
2002	\$ 58,355,346	\$ 29,008,146	\$ 69,924,459	\$ 44,954,646	\$ (27,515,613)	\$ 42,575,251	\$ 15,059,638	\$ 11,251,237	\$ 26,310,875
2003	60,565,819	31,382,908	75,448,383	48,285,185	(31,784,841)	61,427,456	29,642,615	15,906,744	45,549,359
2004	64,796,401	35,565,428	76,225,644	52,199,401	(28,063,216)	94,022,649	65,959,433	33,509,559	99,468,992
2005	66,258,221	41,238,057	85,135,040	59,332,209	(36,970,971)	89,195,075	52,224,104	30,613,539	82,837,643
2006	77,611,474	47,407,080	96,891,371	67,918,954	(39,791,771)	120,029,885	80,238,114	48,300,420	128,538,534
2007	92,679,789	53,066,742	113,677,146	77,853,830	(45,784,445)	106,629,828	60,845,383	57,756,357	118,601,740
2008	94,135,642	56,972,828	122,519,535	90,017,563	(61,428,628)	90,911,996	29,483,368	38,350,704	67,834,072

Notes:

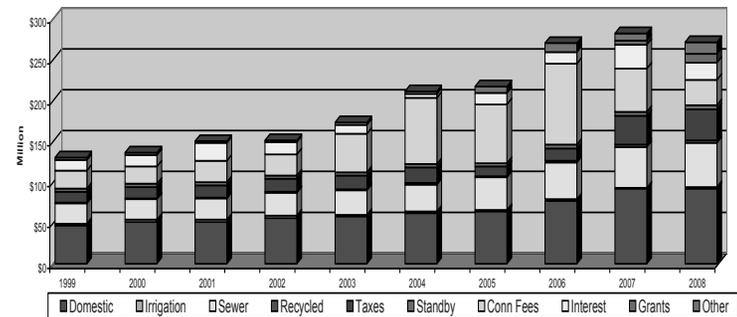
The information shown is retroactive to implementation of GASB Statement No. 34.

1. Increased construction activity relating to growth and market conditions accounts for the increases in contributed infrastructure from 2004 - 2007. This amount decreased for 2008 due to lower construction activity.
2. The District implemented GASB Statement No. 45 for 2008; net other postemployment benefit expense of \$6.2 million is included.

Source: Eastern Municipal Water District

REVENUES BY SOURCE
LAST TEN FISCAL YEARS

Fiscal Year	Domestic Water		Ag & Irrig Water		Sewer Service		Recycled Water	Taxes & Assmnts ¹	Standby	Connect. Fees ²	Interest Income ³	Grants ⁴	Other ⁵	Total Revenues							
	Sales	% of Total	Sales	% of Total	Charges	% of Total															
1999	\$46,822,291	36.6%	\$1,767,339	1.4%	\$25,020,585	19.5%	\$1,078,322	0.9%	\$12,827,333	10.0%	\$3,771,928	2.9%	\$21,572,990	16.9%	\$12,575,306	9.8%	\$ -	0.0%	\$2,592,730	2.0%	\$128,028,824
2000	51,382,241	37.8%	2,636,349	2.0%	25,361,569	18.7%	1,102,441	0.8%	13,882,413	10.2%	3,816,486	2.8%	20,767,021	15.3%	14,289,528	10.5%	-	0.0%	2,560,252	1.9%	135,798,300
2001	51,360,308	34.1%	2,859,387	1.9%	26,123,677	17.3%	1,364,456	0.9%	15,164,499	10.0%	3,858,132	2.6%	25,949,508	17.2%	22,194,517	14.7%	-	0.0%	1,901,955	1.3%	150,776,439
2002	55,736,727	37.1%	2,618,619	1.7%	27,825,278	18.5%	1,182,868	0.8%	15,744,074	10.5%	3,929,860	2.6%	25,740,750	17.1%	15,407,309	10.2%	-	0.0%	2,283,437	1.5%	150,468,922
2003	58,351,059	33.6%	2,214,760	1.3%	29,973,084	17.2%	1,408,824	0.8%	16,914,346	9.7%	4,006,786	2.3%	46,960,911	27.0%	11,219,083	6.5%	-	0.0%	2,712,153	1.6%	173,762,006
2004	62,824,662	29.6%	1,971,739	0.9%	33,496,234	15.8%	2,068,194	1.0%	18,698,381	8.8%	4,172,104	2.0%	80,804,323	38.0%	5,186,086	2.4%	-	0.0%	3,183,193	1.5%	212,405,916
2005	64,092,906	29.5%	2,165,315	1.0%	39,739,370	18.3%	1,498,687	0.7%	11,517,848	5.3%	4,354,591	2.0%	72,445,434	33.4%	13,576,749	6.3%	-	0.0%	7,693,026	3.5%	217,083,926
2006	76,543,807	28.5%	1,067,667	0.4%	45,462,646	16.9%	1,944,434	0.7%	14,747,589	5.5%	4,518,411	1.7%	99,485,272	37.1%	13,804,446	5.2%	-	0.0%	10,808,046	4.0%	268,382,318
2007	91,596,156	32.5%	1,083,633	0.4%	50,318,414	17.9%	2,748,328	1.0%	34,849,428	12.4%	4,667,297	1.7%	52,894,363	18.8%	29,287,538	10.4%	4,598,769	1.6%	9,321,989	3.3%	281,385,915
2008	91,864,344	34.0%	2,271,298	0.8%	54,408,172	20.1%	2,564,656	0.9%	37,648,103	13.9%	4,868,154	1.8%	30,706,687	11.4%	20,579,581	7.7%	11,261,996	4.2%	13,867,981	5.2%	270,040,972



Notes:

1. In 2007, the District received it's full share of property taxes, which were lower for the prior two years due to the state mandated property tax shift from local governments. The increase is also due to a 20% increase in assessed valuations and growth in customer base.
2. The decrease in connection fees is due to lower construction activity in 2007 and 2008.
3. Increased interest income for 2007 and 2008 is due to a higher average portfolio balance and higher average yields.
4. Grants revenue was separately stated for 2007 and 2008. Previously, these amounts were shown as capital contributions or other revenue.
5. Gain on sale of fixed assets of \$6.6 million is included in the amount for 2008.

Source: Eastern Municipal Water District

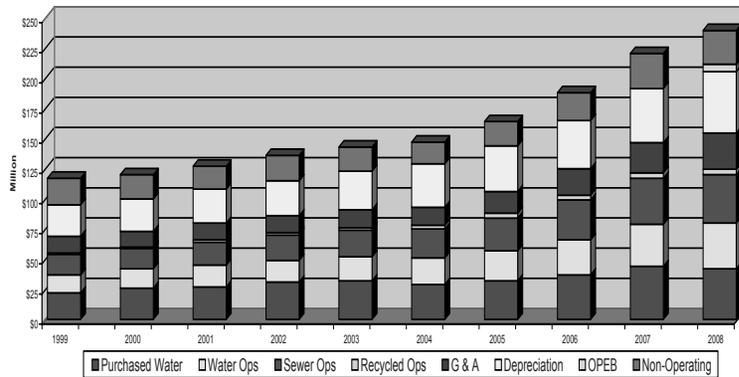
**EXPENSES BY FUNCTION
LAST TEN FISCAL YEARS**

Fiscal Year	Purchased Water	% of Total	Water Operations	% of Total	Sewer Operations	% of Total	Recycled Water Operations	% of Total	General & Admin. ¹	% of Total	Depr. & Amort.	% of Total	Net OPEB ²	% of Total	Total Non-Operating Expenses	% of Total	Total Expenses
1999	\$21,788,173	18.7%	\$14,845,543	12.7%	\$17,219,223	14.7%	\$1,439,250	1.2%	\$13,909,581	11.9%	\$25,976,208	22.2%	\$ -	0.0%	\$21,741,837	18.6%	\$116,919,815
2000	26,331,029	21.6%	16,348,960	13.4%	17,453,978	14.3%	1,313,145	1.1%	13,429,893	11.0%	27,279,095	22.4%	-	0.0%	19,790,677	16.2%	121,946,777
2001	26,985,006	21.2%	17,606,824	13.8%	19,313,651	15.2%	1,922,568	1.5%	14,463,535	11.4%	27,887,507	21.9%	-	0.0%	19,062,414	15.0%	127,241,505
2002	30,632,930	22.6%	17,886,826	13.2%	20,540,533	15.2%	1,988,321	1.5%	14,395,481	10.6%	29,435,014	21.7%	-	0.0%	20,530,179	15.2%	135,409,284
2003	32,307,403	22.4%	19,534,843	13.6%	22,151,919	15.4%	2,410,213	1.7%	15,317,533	10.6%	31,911,657	22.2%	-	0.0%	20,385,823	14.1%	144,019,391
2004	29,104,840	19.9%	21,777,484	14.9%	23,789,668	16.2%	2,992,339	2.0%	15,186,601	10.4%	35,574,113	24.3%	-	0.0%	18,021,438	12.3%	146,446,483
2005	32,380,524	19.6%	25,111,134	15.2%	27,194,672	16.5%	3,789,915	2.3%	18,418,043	11.2%	37,572,961	22.8%	-	0.0%	20,392,573	12.4%	164,859,822
2006	36,817,458	19.6%	29,030,238	15.4%	33,061,321	17.6%	4,289,919	2.3%	21,520,070	11.4%	40,091,319	21.3%	-	0.0%	23,333,879	12.4%	188,144,204
2007	43,866,732	19.9%	35,332,561	16.0%	37,404,662	17.0%	4,379,135	2.0%	25,292,047	11.5%	45,255,839	20.5%	-	0.0%	28,989,556	13.1%	220,520,532
2008	41,653,430	17.3%	38,447,533	16.0%	39,976,740	16.6%	5,071,116	2.1%	30,138,792	12.5%	51,030,538	21.3%	6,218,949	2.6%	28,020,506	11.6%	240,557,604

**WATER PRODUCED AND CONSUMED AND WASTEWATER TREATED
LAST TEN FISCAL YEARS**

Fiscal Year	Gallons Produced ^d				Gallons Consumed			Unbilled		Gallons of Wastewater Treated	Total Direct Rate ← Water →		
	Purchased	Wells	Desalters ²	Total	Domestic	Ag & Irrig	Total	Total	Avg %		Base Rate ³	Usage Rate ⁴	Sewer ⁵
1999	18,041	6,553	-	24,594	20,835	1,875	22,710	1,884	7.7%	11,216	\$ 6.02	\$ 29.52	\$ 15.43
2000	21,690	6,777	-	28,467	24,518	2,577	27,095	1,372	4.8%	11,529	6.02	29.48	15.18
2001	22,128	6,596	-	28,724	24,590	2,893	27,483	1,241	4.3%	11,695	6.02	29.46	14.68
2002	25,096	6,032	-	31,128	26,748	2,656	29,404	1,724	5.5%	11,508	6.02	29.46	14.84
2003	26,056	5,925	95	32,076	28,315	2,135	30,450	1,626	5.1%	12,417	7.27	29.50	15.18
2004	24,722	5,763	536	31,021	27,092	1,689	28,781	2,240	7.2%	13,963	7.45	30.10	16.17
2005	24,532	5,352	217	30,101	26,247	1,698	27,945	2,156	7.2%	15,805	7.70	31.04	17.40
2006	25,818	6,353	944	33,115	29,688	771	30,459	2,656	8.0%	16,352	8.15	32.36	18.86
2007	29,866	6,071	1,613	37,550	33,883	1,263	35,146	2,404	6.4%	16,786	8.43	34.40	19.64
2008	28,254	6,591	982	35,827	32,284	1,537	33,821	2,006	5.6%	16,906	10.04	36.38	20.58

C-51



Notes:

1. The increase in general and administrative charges in 2007 and 2008 primarily relates to increased legal expense for a lawsuit the District is involved in - United States of America v. EMWD.
2. The District implemented GASB Statement No. 45 for 2008; net other postemployment benefit expense of \$6.2 million is included.

Source: Eastern Municipal Water District

Notes:

- The information shown does not include recycled water
1. Gallons are presented in millions.
 2. No desalter facilities existed prior to 2003.
 3. Rate shown is based on the Daily Fixed Charge for meters up to and including 1".
 4. Rate shown is an average rate for 20 billing units. A billing unit is 100 cubic feet of water or 748 gallons.
 5. Rate shown is an average rate for one month of service.

Source: Eastern Municipal Water District

**WATER AND SEWER RATES
LAST TEN FISCAL YEARS**

Fiscal Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Water Rates										
Monthly base rate (meter size)										
<=1"	\$ 6.02	\$ 6.02	\$ 6.02	\$ 6.02	\$ 7.27	\$ 7.45	\$ 7.70	\$ 8.15	\$ 8.43	\$ 10.04
1 1/2"	9.03	9.03	9.03	9.03	10.90	11.19	11.56	12.23	12.65	15.06
2"	12.05	12.05	12.05	12.05	14.54	14.90	15.39	16.30	16.85	20.08
3"	24.09	24.09	24.09	24.09	29.08	29.81	30.78	32.61	33.70	40.15
4"	30.11	30.11	30.11	30.11	36.35	37.26	38.48	40.76	42.16	50.19
6"	42.16	42.16	42.16	42.16	50.89	52.16	53.87	57.06	59.01	70.26
8"	48.18	48.18	48.18	48.18	58.16	59.62	61.56	65.21	67.40	80.30
Usage rate (per billing unit) ¹	\$ 29.52	\$ 29.48	\$ 29.46	\$ 29.46	\$ 29.50	\$ 30.10	\$ 31.04	\$ 32.36	\$ 34.40	\$ 36.38
Sewer Rates (avg per month) ²	\$ 15.43	\$ 15.18	\$ 14.68	\$ 14.84	\$ 15.18	\$ 16.17	\$ 17.40	\$ 18.86	\$ 19.64	\$ 20.58

Notes:

The information shown does not include recycled water.

Rates are adopted by the Board of Directors annually with a January 1 effective date.

1. Rate shown is an average for 20 billing units. A billing unit is 100 cubic feet of water or 748 gallons.

2. The District charges a fixed daily service rate for sewer service for each of its 5 sewer service areas. The average per month is calculated as the weighted average daily rate, times 365 days per year, divided by 12 months per year.

Source: Eastern Municipal Water District

**LARGEST DOMESTIC WATER CUSTOMERS
AS OF JUNE 30, 2008**

Customer Name	Annual Water Sales in Acre Feet	Annual Revenues	Percentage
1 Western Municipal Water District ²	2,188	\$ 1,454,235	32.7%
2 City of Perris ¹	2,101	1,389,021	31.2%
3 Nuevo Mutual Water Company ¹	955	569,574	12.8%
4 County of Riverside Building Dept.	279	224,940	5.0%
5 Moreno Valley School District	226	176,237	4.0%
6 Val Verde Unified School District ¹	198	164,117	3.7%
7 GBW Investments	191	149,438	3.3%
8 Western States Mobile Home Park	302	137,543	3.1%
9 Soboba Springs	121	95,278	2.1%
10 City of Murrieta	115	92,537	2.1%
Total	6,676	\$ 4,452,920	
Total domestic water sales	99,077	\$ 91,864,344	
Percentage of total	6.7%	4.8%	

Notes:

Information for fiscal year ended June 30, 1999 is not available.

Data includes potable water sales to all non-agricultural customers.

1. Wholesale customer.

2. Sales relate to Murrieta County Water District customers. This water district was purchased by the Western Municipal Water District.

Source: Eastern Municipal Water District

**LARGEST AGRICULTURAL & IRRIGATION WATER CUSTOMERS
AS OF JUNE 30, 2008**

Customer Name	Annual Water Sales in Acre Feet	Annual Revenues	Percentage
1 C and R Farms	962	\$ 405,136	43.6%
2 Mc Anally Egg Enterprises	160	95,461	10.3%
3 Kevin and Pauline Doan	121	71,546	7.7%
4 Abacherli Dairy	106	63,444	6.8%
5 Metropolitan Water District	92	55,207	5.9%
6 Sunnymead Ranch PCA	93	53,594	5.8%
7 Valley Wide Recreation & Park	77	50,927	5.5%
8 Demler Egg Ranch	113	48,720	5.2%
9 H P Mobile Home Estates	80	47,826	5.2%
10 San Jacinto Cemetery District ¹	111	36,959	4.0%
Total	1,915	\$ 928,820	
Total ag. & irrigation water sales	4,717	\$ 2,271,298	
Percentage of total	40.6%	40.9%	

Notes:

Information for fiscal year ended June 30, 1999 is not available.

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

1. Sales include only well water which is sold at a lesser rate than imported water.

Source: Eastern Municipal Water District

**LARGEST RECYCLED WATER CUSTOMERS
AS OF JUNE 30, 2008**

Customer Name	Annual Water Sales in Acre Feet	Annual Revenues	Percentage
1 Hemet Golf Club Landmark	556	\$ 201,714	16.9%
2 Agri Empire	2,907	181,738	15.2%
3 SCGA Members Club	656	165,058	13.8%
4 Quail Ranch Golf Course	517	121,900	10.2%
5 Sun City Golf Course LLC	480	121,087	10.1%
6 Joyful Farm Inc.	1,589	104,824	8.8%
7 A G Sod	1,888	103,173	8.6%
8 SJ Wildlife Dept of Fish and Game	2,331	81,747	6.9%
9 West Coast Turf	1,428	57,442	4.8%
10 North Golf Course	223	56,291	4.7%
Total	12,575	\$ 1,194,974	
Total recycled water sales	25,467	\$ 2,564,656	
Percentage of total	49.4%	46.6%	

Notes:

Information for fiscal year ended June 30, 1999 is not available.
The District has a number of recycled water rates depending upon size of pipe, agricultural or non-agricultural usage and level of treatment.

Source: Eastern Municipal Water District

**LARGEST SEWER CUSTOMERS
AS OF JUNE 30, 2008**

Customer Name	Annual Revenues	Percentage
1 Pechanga Resort & Casino	\$ 449,517	34.7%
2 United Dominion Realty Trust	117,650	9.1%
3 Stonegate Apartments	111,694	8.6%
4 Western States Mobile Home Park	97,738	7.6%
5 Riverside County Regional Med. Ctr	92,366	7.1%
6 Montego Home Owners Assn.	91,039	7.0%
7 Eagle Glen Apartments LLC	89,630	6.9%
8 Towngate Lot 12 Apts LLC	86,396	6.7%
9 Golden Village RV Resort	80,600	6.2%
10 Colonial Country Club Estates	78,666	6.1%
Total	\$ 1,295,296	
Total sewer revenue	\$ 54,408,172	
Percentage of total revenue	2.4%	

Note:

Information for fiscal year ended June 30, 1999 is not available.

Source: Eastern Municipal Water District

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

Rates Effective Beginning January ¹	Full Service Domestic Groundwater Replenishment and Reservoir		Interim Agricultural Program		Shift Seasonal Storage		Recycled	Long Term Seasonal Storage	
	Treated	Untreated	Treated	Untreated	Treated	Untreated		Treated	Untreated
1999	\$ 431	\$ 349	\$ 294	\$ 236	\$ 312	\$ 255	\$ 113	\$ 290	\$ 233
2000	431	349	294	236	323	266	113	290	233
2001	431	349	294	236	334	277	113	290	233
2002	431	349	294	236	345	288	113	290	233
2003 Tier 1	408	326	294	236	-	-	-	290	233
Tier 2	489	407	n/a	n/a	-	-	-	n/a	n/a
2004 Tier 1	418	326	304	236	-	-	-	300	233
Tier 2	499	407	n/a	n/a	-	-	-	n/a	n/a
2005 Tier 1	443	331	329	241	-	-	-	325	238
Tier 2	524	412	n/a	n/a	-	-	-	n/a	n/a
2006 Tier 1	453	331	339	241	-	-	-	335	238
Tier 2	549	427	n/a	n/a	-	-	-	n/a	n/a
2007 Tier 1	478	331	364	241	-	-	-	360	238
Tier 2	574	427	n/a	n/a	-	-	-	n/a	n/a
2008 Tier 1	508	351	394	261	-	-	-	390	258
Tier 2	606	449	n/a	n/a	-	-	-	n/a	n/a

Note:

1. MWD implemented a new two-tiered commodity rate structure effective January 1, 2003.

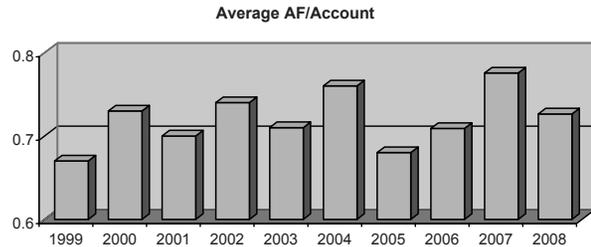
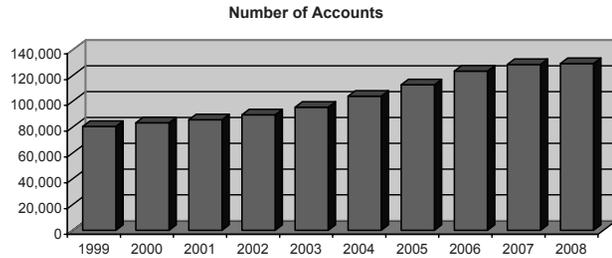
Source: (MWD) Metropolitan Water District of Southern California

**ANNUAL DOMESTIC CONSUMPTION (AF)
LAST TEN FISCAL YEARS**

Fiscal Year	Usage (AF)	Active Accounts	Average AF per Account
1999	54,212	80,517	0.67
2000	61,007	83,293	0.73
2001	60,231	85,638	0.70
2002	66,293	89,569	0.74
2003	67,345	95,449	0.71
2004	79,006	103,919	0.76
2005	77,066	112,845	0.68
2006	87,488	123,384	0.71
2007	99,658	128,506	0.78
2008	93,956	129,344	0.73

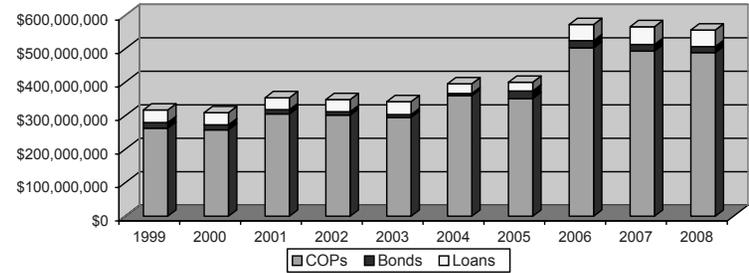
Note: Amounts exclude wholesale accounts.

Source: Eastern Municipal Water District



**RATIO OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS**

Fiscal Year	Certificates of Participation ¹	General Obligation Bonds	Loans	Total	Percentage of Assessed Value ²
1999	\$ 263,000,000	\$ 16,975,000	\$ 37,175,525	\$ 317,150,525	1.70%
2000	258,075,000	14,790,000	36,556,179	309,421,179	1.59%
2001	305,615,000	12,675,000	35,588,494	353,878,494	1.65%
2002	301,880,000	10,515,000	36,124,905	348,519,905	1.47%
2003	295,475,000	8,450,000	38,556,914	342,481,914	1.29%
2004	360,370,000	6,455,000	28,603,485	395,428,485	1.31%
2005	351,615,000	22,695,000	25,705,169	400,015,169	1.10%
2006	502,990,000	21,675,000	48,103,473	572,768,473	1.25%
2007	493,190,000	19,945,000	52,874,716	566,009,716	0.98%
2008	488,460,000	18,140,000	49,630,496	556,230,496	0.82%



Notes:

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

1. The District issued over \$160 million of new certificates of participation in 2006.
2. Assessed value includes both secured and unsecured property.

Source: Eastern Municipal Water District

**REVENUE BOND COVERAGE
LAST TEN FISCAL YEARS**

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
OPERATING REVENUES:										
Water sales	\$ 48,589,630	\$ 54,018,590	\$ 54,219,695	\$ 58,355,346	\$ 60,565,819	\$ 64,796,401	\$ 66,258,221	\$ 77,611,474	\$ 92,679,789	\$ 94,136,642
Sewer service sales	25,020,585	25,361,569	26,123,677	27,825,278	29,973,084	33,496,234	39,739,370	45,462,646	50,318,414	54,408,172
Recycled water	1,078,322	1,102,441	1,364,456	1,182,868	1,409,824	2,069,194	1,498,687	1,944,434	2,748,328	2,564,656
Total operating revenues	74,688,537	80,482,600	81,707,828	87,363,492	91,948,727	100,361,829	107,496,278	125,018,554	145,746,531	151,108,470
OPERATING EXPENSES:										
Water purchases	21,788,173	26,331,029	26,985,006	30,632,930	32,307,403	29,104,840	32,380,524	36,817,458	43,866,732	41,653,430
Water operations	14,845,543	16,348,960	17,606,824	17,886,826	19,634,843	21,777,484	25,111,134	29,030,238	35,332,561	38,447,533
Sewer operations	18,658,473	18,767,123	21,236,219	22,528,854	24,562,132	26,782,007	30,984,587	37,351,240	41,783,797	45,047,856
General & administrative	13,909,581	13,429,893	14,463,535	14,395,481	15,317,533	15,186,601	16,418,043	21,520,070	25,292,047	30,138,792
Total operating expenses	69,201,770	74,877,005	80,291,584	85,444,091	91,821,911	92,850,932	106,894,288	124,719,006	146,275,137	155,287,611
OPERATING INCOME (LOSS)	5,486,767	5,605,595	1,416,244	1,919,401	126,816	7,510,897	601,990	299,548	(528,606)	(4,179,141)
NON-OPERATING REVENUES:										
Property taxes - general purpose	9,804,684	10,778,537	11,753,408	12,887,334	14,477,271	16,531,907	8,707,881	11,213,568	31,293,863	34,528,767
Standby charges	3,771,928	3,816,486	3,858,132	3,929,860	4,006,786	4,172,104	4,354,591	4,518,411	4,667,297	4,868,154
Water and sewer connection fees	21,572,990	20,767,021	25,949,508	25,740,750	46,960,911	80,804,323	72,445,434	99,485,272	52,894,363	30,706,687
Interest income	12,262,116	13,948,178	21,827,134	15,105,192	10,986,525	4,987,397	13,354,263	13,545,983	28,899,522	20,128,848
Other income/(expense)	(2,539,326)	(978,297)	(2,107,544)	(1,637,861)	(1,564,986)	780,603	3,077,188	7,088,624	4,093,851	8,612,367
Total non-operating revenues	44,872,392	48,331,925	61,280,638	56,025,275	74,866,507	107,276,334	101,939,357	135,851,858	121,848,896	99,044,823
NON-OPERATING EXPENSES:										
Debt service interest payments	15,260,659	15,069,255	14,033,057	15,736,862	15,427,928	15,042,051	15,358,957	18,404,817	22,670,400	21,953,962
Total non-operating expenses	15,260,659	15,069,255	14,033,057	15,736,862	15,427,928	15,042,051	15,358,957	18,404,817	22,670,400	21,953,962
EXCESS OF REVENUE OVER EXPENSES										
BEFORE EXTRAORDINARY ITEM	35,098,500	38,868,265	48,663,825	42,207,814	59,565,395	99,745,180	87,182,390	117,746,589	98,649,890	72,911,720
Add back for COP interest	15,260,659	15,069,255	14,033,057	15,736,862	15,427,928	15,042,051	15,358,957	18,404,817	22,670,400	21,953,962
Net revenues for debt coverage	50,359,159	53,937,520	62,696,882	57,944,676	74,993,323	114,787,231	102,541,347	136,151,406	121,320,290	94,865,682
COP principal and interest	20,065,659	20,994,255	19,233,057	19,471,862	21,832,928	21,737,051	24,113,957	27,374,817	32,005,400	28,708,962
DEBT COVERAGE RATIO	2.5	2.6	3.3	3.0	3.4	5.3	4.3	5.0	3.8	3.3

Source: Eastern Municipal Water District

**DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST EIGHT CALENDAR YEARS**

Calendar Year	Population ¹	Personal Income ² (thousands of \$)	Per Capita Personal Income ²	Unemployment Rate ²
2000	450,000	\$ 37,014,951	\$ 23,728	5.4%
2001	480,000	39,974,556	24,668	5.5%
2002	501,000	42,010,066	24,797	6.5%
2003	520,300	42,655,266	24,814	6.5%
2004	553,000	45,016,790	25,337	6.0%
2005	596,000	49,443,185	26,342	5.4%
2006	629,000	53,246,505	27,449	5.0%
2007	675,000	57,666,983	28,730	6.2%

Notes: 1. Data is for the District's service area.
2. Data is for the County of Riverside. The District is located within the County.

Source: State of California Employment Development Department

**PRINCIPAL EMPLOYERS
FISCAL YEAR ENDED JUNE 30, 2008**

Employer	No. of Employees	Percentage of Total Labor Force
County of Riverside	19,595	2.3%
March Air Reserve Base	8,400	1.0%
University of California Riverside	6,657	0.8%
Stater Bros. Markets	6,425	0.8%
Pechanga Resort and Casino	4,800	0.6%
Abbott Vascular	4,500	0.5%
Riverside Unified School District	4,141	0.5%
Riverside Community College	3,753	0.4%
Kaiser Permanente Medical Center	3,200	0.4%
Temecula Valley Unified School Dist.	2,952	0.4%
Total	64,423	7.7%

Notes: Information for fiscal year ended June 30, 1999 is not available.
Data is for the County of Riverside. The District is located within the County.

Sources: The Business Press' 2007 Book of Lists
State of California Employment Development Department

**DISTRICT EMPLOYEES BY FUNCTION
LAST THREE FISCAL YEARS**

	<u>2008</u>	<u>2007</u>	<u>2006</u>
<u>Water Operations</u>			
Water Resources Development and Management ²	17	13	12
Water Quality	15	18	17
Water Operations and Distribution	66	57	60
<u>Wastewater Operations</u>			
Wastewater Collection	15	15	13
Source Control	10	10	12
Water Reclamation Plant	82	76	75
<u>Maintenance Services</u>			
Maintenance	20	20	19
Auto and Fabrication	14	14	14
Mechanical	27	27	26
Electrical and Controls	21	20	20
Field and Grounds	37	37	36
<u>Engineering Services</u>			
General Engineering ¹	56	52	61
Inspections and Construction Management	39	44	36
New Business Development ¹	28	34	20
<u>Administration</u>			
Environmental and Regulatory Compliance	7	9	8
Executive and Administration	10	8	8
Billing/Customer Service	49	47	41
Meter Reading	25	25	24
Finance and Accounting	20	18	18
Human Resources	13	12	12
Legislative Affairs	3	3	3
Information Systems	33	35	37
Purchasing, Warehouse and Records Management	28	28	28
Community Involvement ²	9	13	10
Total	<u>644</u>	<u>635</u>	<u>610</u>

Notes: All directors and managers are included with their divisions.

Temporary, contract and summer help employees are not included.

Data is not readily available for fiscal years prior to 2006.

1. The General Engineering and New Business Development departments were reorganized.

2. The Conservation work group was moved from Community Involvement to Water Resources Development and Management.

Source: Eastern Municipal Water District

**OPERATING AND CAPITAL INDICATORS
LAST SIX FISCAL YEARS**

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
<u>POTABLE WATER SYSTEM</u>						
Miles of pipeline:						
transmission and distribution	2,437	2,442	2,345	2,051	1,867	1,528
Number of storage tanks	78	79	78	77	78	76
Maximum storage capacity (million gallons)	189	193	193	188	188	178
Number of active pumping plants	81	83	82	80	80	79
Number of active wells:						
domestic	18	18	18	18	18	17
desalter	5	7	9	2	2	2
Domestic well production capacity:						
gallons per minute	21,597	22,076	19,747	19,000	17,953	18,179
million gallons per day	31.1	31.8	28.4	27.4	25.9	26.2
acre feet per year	0	0	0	30,407	28,959	29,310
Number of water treatment plants:						
desalter	2	2	2	1	1	1
filtration	2	2	1	1	1	1
Treatment plant capacity (million gallons per day):						
desalter plants	8.0	8.0	8.0	3.0	3.0	3.0
filtration plants	31.4	21.4	21.4	11.4	11.4	11.4
Number of service connections:						
active domestic accounts	129,344	128,506	123,384	112,845	103,919	95,449
active agriculture and irrigation accounts	140	129	130	139	153	167
<u>SEWER SYSTEM</u>						
Miles of sewer lines ¹	1,721	1,857	1,750	1,500	1,400	1,200
Number of treatment plants	5	5	5	5	5	5
Treatment plant capacity (million gallons per day)	59	59	59	53	53	53
Average million gallons per day treated	46.2	46.0	44.8	43.3	38.2	34.0
Percentage of capacity utilized	78%	78%	76%	82%	72%	64%
Number of active lift stations	47	46	46	43	40	35
<u>RECYCLED SYSTEM</u>						
Miles of pipeline:						
transmission and distribution	201	192	174	159	139	123
Number of active pumping facilities	18	18	18	16	15	15
Maximum storage capacity (acre feet)	6,764	6,694	6,571	6,670	6,653	6,669
<u>GENERAL INFORMATION</u>						
Service area:						
acres	346,449	346,425	346,337	346,148	346,125	345,903
square miles	541.3	541.3	541.2	540.9	540.8	540.5
Average years of service of employees	10.05	9.98	9.80	10.63	10.90	10.86

Notes: Data is not readily available for fiscal years prior to 2003.

1. Miles of sewer lines decreased in 2008 because the District transferred sewer lines to the City of San Jacinto.

Source: Eastern Municipal Water District

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

Fiscal Year	Retail Sales	Write Offs	% of Sales
1999	\$ 58,067,579	\$ 376,289	0.6%
2000	63,682,193	259,197	0.4%
2001	63,691,389	244,161	0.4%
2002	68,291,381	236,168	0.3%
2003	70,041,876	301,164	0.4%
2004	83,551,697	255,260	0.3%
2005	88,297,280	259,410	0.3%
2006	103,371,554	384,329	0.4%
2007	121,769,923	724,045	0.6%
2008	126,144,814	1,155,769	0.9%
Total	<u>\$ 846,909,686</u>	<u>\$ 4,195,792</u>	<u>0.5%</u>

Note: Excludes sales collected by other agencies.

Source: Eastern Municipal Water District

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

Fiscal Year	Year End A/R Balance	Reserves	% of A/R
1999	\$ 4,525,491	\$ 222,503	4.9%
2000	5,501,355	116,267	2.1%
2001	5,070,308	56,097	1.1%
2002	5,477,258	69,363	1.3%
2003	5,499,953	56,569	1.0%
2004	5,707,462	89,413	1.6%
2005	5,973,588	91,578	1.5%
2006	7,350,203	187,390	2.5%
2007	9,278,477	368,961	4.0%
2008	9,375,405	690,461	7.4%

Note: Reserves equal accounts over 60 days.

Source: Eastern Municipal Water District



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APPENDIX D

DEMOGRAPHIC INFORMATION REGARDING THE COUNTY OF RIVERSIDE AND THE WATER DISTRICT'S SERVICE AREA

The following information concerning the County of Riverside (the "County") and the State of California (the "State") is presented as general background information. The Bonds are not an obligation of the Water District, the County or the State and the taxing power of the County and the State are not pledged to the payment of the Bonds. The Water District serves the westerly third of the County. A significant percentage of the total population of the County lives within the service area of the Water District. Due to the close relationship between the Water District service area and the County, a brief description of the economy of the County is described below.

General

The County was organized in 1893 from territory in San Bernardino and San Diego Counties and encompasses 7,243 square miles. The County is bordered on the north by San Bernardino County, on the east by the State of Arizona, on the south by San Diego and Imperial Counties and on the west by Orange County. There are 24 incorporated cities in the County.

The County is a general law county divided into five supervisorial districts on the basis of registered voters and population. The County is governed by a five member Board of Supervisors who serve alternating four year terms. The chairman of the Board of Supervisors is elected by the Board members.

County administration includes appointed and elected officials, boards, commissions and committees which assist the Board of Supervisors.

The County provides a wide range of services to residents, including police and fire protection, medical and health services, education, library services, judicial institutions and public assistance programs.

Some municipal services are provided by the County on a contract basis to incorporated cities within its boundaries. These services are designed to allow cities to contract for certain municipal services such as police and fire protection without incurring the cost of creating city departments and facilities. Services are provided to the cities at cost by the County.

Geography

Three distinct geographical areas characterize the County: the western valley area, the higher elevations of the mountains and the deserts.

Population

The largest cities in the County are the cities of Riverside, Moreno Valley, Corona, Temecula, Hemet, Indio, Murrieta, Cathedral City and Palm Springs. The areas of most rapid population growth continue to be those more populated and industrialized cities in the western and central regions of the County and the southwestern unincorporated region of the County between Sun City and Temecula.

The table below sets forth annual population figures, as of January 1, for cities located within the County for each of the years listed.

COUNTY OF RIVERSIDE
Population of Cities Within The County
(As of January 1)

<i>City/County/State</i>	2005	2006	2007	2008	2009
Banning	27,996	28,185	28,174	28,148	28,457
Beaumont	19,051	23,238	28,209	31,317	32,403
Blythe	22,052	22,234	22,608	21,627	21,329
Calimesa	7,491	7,475	7,435	7,423	7,498
Canyon Lake	10,950	10,983	10,955	10,994	11,128
Cathedral City	50,819	51,294	52,045	51,972	52,447
Coachella	30,879	35,354	38,437	40,317	41,000
Corona	144,600	145,265	145,847	146,698	148,597
Desert Hot Springs	20,820	23,459	24,856	25,939	26,552
Hemet	67,565	70,728	72,537	73,205	74,361
Indian Wells	4,796	4,885	4,934	5,000	5,093
Indio	66,358	71,949	77,046	80,962	82,230
Lake Elsinore	38,185	41,156	47,568	49,556	50,267
La Quinta	36,278	38,500	41,039	42,743	43,778
Menifee	0	0	0	0	67,705
Moreno Valley	165,935	175,294	180,228	182,945	186,301
Murrieta	85,328	93,221	97,031	99,576	100,714
Norco	26,783	27,355	27,329	27,143	27,160
Palm Desert	49,490	49,774	49,717	50,686	51,509
Palm Springs	45,877	46,629	46,796	47,019	47,601
Perris	44,758	47,335	50,597	53,340	54,323
Rancho Mirage	16,476	16,740	16,923	16,975	17,180
Riverside	286,563	288,984	291,812	296,191	300,430
San Jacinto	28,540	31,194	34,297	35,491	36,477
Temecula	81,681	93,673	97,141	99,873	102,604
Wildomar	0	0	0	0	31,321
Balance Of County	504,464	517,110	536,754	553,461	459,188
Incorporated	<u>1,379,271</u>	<u>1,444,904</u>	<u>1,493,561</u>	<u>1,525,140</u>	<u>1,648,465</u>
County Total	1,883,735	1,962,014	2,030,315	2,078,601	2,107,653

Source: State of California, Department of Finance, *E-4 Population Estimates for Cities, Counties and the State, 2001–2009, with 2000 DRU Benchmark.*

Construction Activity

The following table shows building permit valuations and new housing units in the County for 2004 through 2008.

COUNTY OF RIVERSIDE					
Building Permit Valuation and New Housing Units					
(Dollar Volume in \$1,000's)					
	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>
<u>Residential</u>					
Single Family	\$5,997,514	\$6,243,790	\$ 4,412,257	\$ 2,207,520	\$ 1,214,752
Multi-Family	404,616	407,429	431,579	238,316	243,741
Alteration/Additions	<u>135,178</u>	<u>164,312</u>	<u>158,098</u>	<u>141,966</u>	<u>118,490</u>
Total	\$6,537,308	\$6,815,531	\$5,001,934	\$ 2,587,832	\$ 1,576,983
<u>Non-Residential</u>					
New Commercial	\$ 580,058	\$ 552,665	\$ 648,068	\$ 682,331	\$ 539,944
New Industry	203,311	120,366	288,353	184,506	70,411
Other ⁽¹⁾	334,002	344,702	290,010	240,765	138,766
Alteration/Additions	<u>222,496</u>	<u>274,339</u>	<u>303,407</u>	<u>350,539</u>	<u>292,694</u>
Total	\$1,339,867	\$1,292,072	\$1,529,838	\$ 1,458,141	\$ 1,041,815
<u>Total All Industry</u>	\$7,877,175	\$8,107,603	\$6,531,772	\$ 4,045,973	\$ 2,618,798
<u>New Housing Units</u>					
Single Family Units	29,478	29,994	20,692	9,763	3,815
Multi-Family Units	4,748	4,140	4,519	2,690	2,104
Total	34,226	34,134	25,211	12,453	5,919

⁽¹⁾ Includes churches and religious buildings, hospitals and institutional buildings, schools and educational buildings, residential garages, public works and utilities buildings and non-residential alterations and additions.

Source: Construction Industry Research Board.

Employment

The following table sets forth the major employers located in the County during 2009:

COUNTY OF RIVERSIDE Major Employers⁽¹⁾ (2009)

<i>Name</i>	<i>Employees</i>	<i>Type of business or entity</i>
County of Riverside	21,425	County government
March Air Reserve Base	8,400	Government/Military
University of California, Riverside	7,147	Educational Institution
Wal-Mart	6,550	Retail store
Stater Brothers Markets	6,500	Grocery retailer
Riverside Unified School District	5,099	Education
Pechanga Resort & Casino	5,000	Casino/resort
Abbot Vascular	4,500	Medical & biotech manufacturer
Riverside Community College District	3,765	Higher education
Kaiser Permanent Riverside Medical Center	3,200	Healthcare
City of Riverside	3,000	City government
Temecula Valley Unified School District	2,752	Education
Hemet Unified School District	2,590	Education
Morongo Casino, Resort & Spa	2,402	Casino/resort
Eisenhower Medical Center	2,223	Healthcare

⁽¹⁾ The County itself does not directly maintain employment records, but relies upon a variety of independent surveys, as well as upon its own surveys to identify major employers.

Source: The Business Press *Book of Lists 2009*.

Employment and Industry

Employment data by industry is not separately reported on an annual basis for the Water District's service area but is compiled for the Riverside-San Bernardino-Ontario Metropolitan Statistical Area (the "MSA"), which includes all of Riverside and San Bernardino Counties. In addition to varied manufacturing employment, the MSA has large and growing commercial and service sector employment, as reflected in the table below.

The following table represents the Annual Average Labor Force and Industry Employment for the MSA for the period from 2004 through 2008.

RIVERSIDE-SAN BERNARDINO-ONTARIO METROPOLITAN STATISTICAL AREA Annual Average Labor Force and Industry Employment

	2004	2005	2006	2007	2008
Civilian Labor Force	1,653,300	1,713,500	1,758,800	1,782,700	1,795,200
Civilian Employment	1,555,900	1,622,300	1,672,100	1,678,900	1,646,300
Civilian Unemployment	97,400	91,200	86,700	103,800	148,900
Civilian Unemployment Rate	5.9%	5.3%	4.9%	5.8%	8.3%
Total Farm	18,700	18,200	16,900	16,400	16,200
Total Nonfarm	1,160,000	1,217,100	1,267,700	1,270,900	1,222,500
Total Private	947,500	996,800	1,045,200	1,045,600	992,500
Goods Producing	233,100	243,700	252,300	232,400	198,700
Natural Resources and Mining	1,200	1,300	1,400	1,300	1,200
Construction	111,800	122,200	127,500	112,500	90,500
Manufacturing	120,100	120,200	123,400	118,500	107,000
Durable Goods	85,500	85,600	86,900	82,100	72,600
Nondurable Goods	34,600	34,600	36,500	36,500	34,400
Service Providing	926,900	973,400	1,015,400	1,038,600	1,023,800
Private Service Producing	714,400	753,100	793,000	813,200	793,900
Trade, Transportation and Utilities	254,900	273,900	291,100	301,900	293,400
Wholesale Trade	45,600	49,200	54,200	56,800	55,100
Retail Trade	153,800	165,000	173,200	175,600	168,000
Transportation, Warehousing and Utilities	55,500	59,700	63,800	69,500	70,200
Information	14,000	14,400	15,300	15,400	14,800
Financial Activities	45,700	48,700	51,600	50,200	46,300
Professional and Business Services	125,500	132,500	142,300	145,000	136,700
Educational and Health Services	118,400	120,000	122,100	127,000	131,700
Leisure and Hospitality	116,700	122,400	128,100	132,600	130,100
Other Services	39,300	41,200	42,500	41,200	40,900
Government	<u>212,500</u>	<u>220,400</u>	<u>222,500</u>	<u>225,300</u>	<u>230,000</u>
Total, All Industries	<u>1,178,700</u>	<u>1,235,400</u>	<u>1,285,000</u>	<u>1,287,300</u>	<u>1,238,700</u>

Note: The "Total, All Industries" data is not directly comparable to the employment data found herein.

Source: State of California, Employment Development Department, Labor Market Information Division, Riverside-San Bernardino-Ontario MSA Annual Average Labor Force and Industry Employment, March 2008 Benchmark.

The following table summarizes the labor force, employment and unemployment figures for the period from 2004 through 2008 for the Cities of Hemet, Moreno Valley, Perris, San Jacinto and Temecula, the MSA, the State and the nation as a whole.

**CITIES OF HEMET, MORENO VALLEY, PERRIS, SAN JACINTO AND TEMECULA,
RIVERSIDE-SAN BERNARDINO-ONTARIO MSA,
STATE OF CALIFORNIA AND UNITED STATES
Average Annual Civilian Labor Force, Employment and Unemployment**

<i>Year and Area</i>	<i>Labor Force</i>	<i>Employment⁽¹⁾</i>	<i>Unemployment⁽²⁾</i>	<i>Unemployment Rate (%)⁽³⁾</i>
2005				
Hemet	24,500	22,800	1,700	6.9%
Moreno Valley	81,800	76,600	5,200	6.3
Perris	17,700	16,100	1,550	8.7
San Jacinto	11,200	10,300	950	8.4
Temecula	35,300	34,000	1,300	3.6
Riverside-San Bernardino-Ontario	1,713,500	1,622,300	91,200	5.3
California	17,695,600	16,746,900	948,700	5.4
United States ⁽⁴⁾	149,320,000	141,730,000	7,591,000	5.1
2006				
Hemet	25,500	23,800	1,650	6.5%
Moreno Valley	83,400	79,000	4,900	6.3
Perris	18,300	16,800	1,500	8.2
San Jacinto	11,600	10,700	900	7.9
Temecula	36,700	35,500	1,200	3.3
Riverside-San Bernardino-Ontario	1,758,800	1,672,100	86,700	4.9
California	17,941,000	17,076,000	865,000	4.8
United States	152,571,000	146,081,000	7,001,000	4.3
2007				
Hemet	26,100	24,100	2,000	7.7%
Moreno Valley	86,500	80,400	6,100	7.1
Perris	18,900	17,000	1,800	9.7
San Jacinto	12,000	10,800	1,100	9.4
Temecula	37,400	35,900	1,500	4.0
Riverside-San Bernardino-Ontario	1,782,700	1,678,900	103,800	5.8
California	18,078,000	17,108,700	969,300	5.4
United States ⁽⁴⁾	153,124,000	146,047,000	7,078,000	4.6
2008				
Hemet	26,500	23,600	2,900	10.9%
Moreno Valley	87,600	78,800	8,800	10.0
Perris	19,300	16,700	2,600	13.6
San Jacinto	12,200	10,600	1,600	13.2
Temecula	37,400	35,200	2,200	5.8
Riverside-San Bernardino-Ontario	1,795,200	1,646,300	148,900	8.3
California	18,391,800	17,059,600	1,332,300	7.2
United States ⁽⁴⁾	154,287,000	145,362,000	8,924,000	5.8
2009⁽⁵⁾				
Hemet	26,800	22,400	4,400	16.5%
Moreno Valley	87,900	74,600	13,400	15.2
Perris	19,800	15,800	4,000	20.2
San Jacinto	12,500	10,000	2,500	19.6
Temecula	36,600	33,300	3,300	9.0
Riverside-San Bernardino-Ontario	1,789,700	1,557,200	232,500	13.0
California	18,441,400	16,374,500	2,066,900	11.2
United States	154,336,000	140,363,000	13,973,000	9.1

⁽¹⁾ Includes persons involved in labor-management trade disputes.

⁽²⁾ Includes all persons without jobs who are actively seeking work.

⁽³⁾ The unemployment rate is computed from unrounded data; therefore, it may differ from rates computed from rounded figures in this table.

⁽⁴⁾ Not strictly comparable with data for prior years.

⁽⁵⁾ Preliminary data as of May 31, 2009, not seasonally adjusted.

Source: California Employment Development Department, based on March 2008 benchmark and U.S. Department of Labor, Bureau of Labor Statistics.

Retail Sales

The table below presents the County's retail sales for the years 2004 through 2008.

COUNTY OF RIVERSIDE
Taxable Transactions For Years 2004 through 2008
(in Thousands)

	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>	<i>2008⁽¹⁾</i>
Apparel Stores Group	\$876,276	\$990,129	\$1,080,385	\$1,171,013	\$547,295
General Merchandise Group	3,026,335	3,304,474	3,553,554	3,593,134	1,646,414
Specialty Stores Group	1,855,435	2,104,040	2,262,442	1,351,685	558,431
Food Stores Group	1,079,972	1,197,438	1,309,782	1,352,609	673,095
Eating & Drinking Group	1,940,610	2,157,801	2,316,422	2,388,039	1,240,750
Household Group	862,551	964,629	948,217	843,945	361,503
Building Material Group	2,226,117	2,424,898	2,390,236	1,961,911	812,801
Automotive Group	6,035,203	6,751,648	6,956,756	4,301,385	1,776,664
All Other Retail Stores Group	<u>792,450</u>	<u>944,155</u>	<u>1,024,551</u>	<u>2,794,790</u>	<u>2,317,732</u>
Total Retail Stores	\$18,715,949	\$20,839,212	\$21,842,354	\$21,242,516	\$9,934,685
Business and Personal Services	1,041,360	1,118,570	1,151,861	1,112,407	575,617
All Other Outlets	5,479,839	6,298,709	6,822,031	6,668,686	2,984,969
Total All Outlets	\$25,237,148	\$28,256,491	\$29,816,237	\$29,023,609	\$13,495,271

⁽¹⁾ Figures through Second Quarter 2008.

Source: California State Board of Equalization.

Agriculture

Agriculture remains a leading source of income in the County. Principal agricultural products are milk, eggs, table grapes, grapefruit, nursery, alfalfa, dates, lemons and avocados.

There are four areas in the County that account for all the agricultural activity: the Riverside/Corona and San Jacinto/Temecula Valley Districts in the western portion of the County, the Coachella Valley in the central portion and the Palo Verde Valley near the County's eastern border.

The table below summarizes the value of agricultural production in the County for the years 2003 through 2007.

COUNTY OF RIVERSIDE
Value of Agricultural Production

	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>
Citrus Fruits	\$ 84,900,100	\$ 123,574,100	\$ 138,244,700	\$ 107,897,000	\$ 121,387,100
Trees and Vines	216,566,200	211,936,500	188,553,200	191,321,200	181,802,100
Vegetables, Melons, Miscellaneous	179,001,900	174,866,300	261,019,500	213,643,300	234,854,700
Field and Seed Crops	73,692,000	75,219,000	77,687,300	68,611,700	94,492,700
Nursery	205,846,300	211,271,200	229,210,200	270,992,800	272,326,200
Apiculture	3,520,600	2,951,300	2,736,800	3,554,300	3,948,900
Aquaculture	<u>15,931,600</u>	<u>15,579,100</u>	<u>13,367,300</u>	<u>11,514,700</u>	<u>9,829,200</u>
Total Crop Valuation	\$ 779,458,700	\$ 815,397,500	\$ 910,819,000	\$ 867,535,000	\$ 918,640,200
Livestock and Poultry Valuation	<u>287,908,600</u>	<u>316,207,700</u>	<u>257,852,100</u>	<u>234,903,400</u>	<u>338,938,600</u>
Grand Total	<u>\$1,067,367,300</u>	<u>\$1,131,605,200</u>	<u>\$1,168,671,100</u>	<u>\$1,102,438,400</u>	<u>\$1,257,578,800</u>

Source: Riverside County Farm Bureau 2007 Crop Report.

Transportation

Easy access to job opportunities in the County and nearby Los Angeles, Orange and San Diego Counties is important to the County's employment picture. Several major freeways and highways provide access between the County and all parts of Southern California. The Riverside Freeway (State Route 91) extends southwest through Corona and connects with the Orange County freeway network in Fullerton. Interstate 10 traverses the width of the County, the western-most portion of which links up with major cities and freeways in the eastern part of Los Angeles County and the southern part of San Bernardino County. Interstate 15 and 215 extend north and then east to Las Vegas, and south to San Diego. The Moreno Valley Freeway (U.S. 60) provides an alternate (to Interstate 10) east-west link to Los Angeles County.

Currently, Metrolink provides commuter rail service to Los Angeles and Orange Counties from several stations in the County. Freight service to major west coast and national markets is provided by two transcontinental railroads – Burlington Northern/Santa Fe and Union Pacific. Truck service is provided by several common carriers, making available overnight delivery service to major California cities.

Transcontinental bus service is provided by Greyhound Lines. Intercounty, intercity and local bus service is provided by the Riverside Transit Agency to western County cities and communities. The SunLine Transit Agency provides local bus service throughout the Coachella Valley, including the cities of Palm Springs and Indio. The City of Banning also operates a local bus system.

The County seat, located in the City of Riverside, is within 20 miles of the Ontario International Airport in neighboring San Bernardino County. This airport is operated by the Los Angeles Department of Airports. Four major airlines schedule commercial flight service at Palm Springs Regional Airport. County-operated general aviation airports include those in Thermal, Hemet, Blythe and French Valley. The cities of Riverside, Corona and Banning also operate general aviation airports. There is a military base at March Air Force Base, which converted from an active duty base to a reserve-only base on April 1, 1996. Plans for joint military and civilian use of the base thereafter are presently being formulated by the March AFB Joint Powers Authority, comprised of the County and the Cities of Riverside, Moreno Valley and Perris.

The Rancho California Water District is bisected by Interstate 15 which directly connects it with San Diego and Interstate 10 leading to Los Angeles. Interstate 15 also directly connects with Highway 91 leading to Orange County and Interstate 215 leading to Riverside.

Expansion of the French Valley Airport, located approximately two miles from Temecula, was completed in 1991. This airport provides facilities for light general aviation and small jet traffic, including T-hangars, a fixed-base operator building, and an instrument approach service for all-weather takeoffs and landings. Five major airports (Ontario International, San Diego International, John Wayne Airport, Los Angeles International, and Palm Springs Regional Airport) are within 90 miles of the Water District

APPENDIX E

FORM OF BOND COUNSEL OPINION

(Delivery Date)

Western Riverside Water and Wastewater Financing Authority
Perris, California

Re: \$31,625,000 Western Riverside Water and Wastewater Financing Authority Revenue Bonds, Series 2009 (Eastern Municipal Water District Improvement Districts General Obligation Bond Financing)

Ladies and Gentlemen:

We have reviewed the Constitution and the laws of the State of California and certain proceedings taken by the Western Riverside Water and Wastewater Financing Authority (the "Authority") in connection with the issuance by the Authority of the above-referenced bonds (the "Bonds"). The Bonds have been issued under that certain Indenture of Trust, dated as of July 1, 2009 (the "Indenture"), by and between U.S. Bank National Association, as Trustee, and the Authority. In rendering our opinion, we have relied upon certain representations of fact and certifications made by the Authority, Eastern Municipal Water District (the "District"), the original purchaser of the Bonds and others and such information and documents as we consider necessary to render this opinion. We have not undertaken to verify through independent investigation the accuracy of the representations and certifications relied upon by us.

The Bonds are authorized to be issued pursuant to Articles 1 through 4 (commencing with Section 6500) of Chapter 5 of Division 7 of Title 1 of the California Government Code and a resolution adopted by the Authority on July 15, 2009 (the "Resolution") approving the Indenture. The Bonds are dated as of their date of delivery and mature on the dates set forth in the Indenture, and interest on the Bonds is payable on the dates and at the rates per annum set forth in the Indenture. The Bonds are registered Bonds in the form set forth in the Indenture and are redeemable in the amounts, at the times and in the manner set forth in the Indenture.

All terms not defined herein have the meaning ascribed to those terms in the Indenture.

Based upon and subject to the foregoing, and in reliance thereon, we are of the following opinions:

1. The Bonds have been duly and validly authorized by the Authority and are legal, valid and binding limited obligations of the Authority. The Bonds are secured and payable solely from Revenues consisting in part of amounts received by the Authority in respect of certain general obligation bonds of certain improvement districts of the District as and to the extent provided for in the Indenture. The Bonds are enforceable in accordance with their terms and the terms of the Indenture, except to the extent that enforceability may be limited by moratorium, bankruptcy, reorganization, fraudulent conveyance or transfer, insolvency or other laws affecting creditors' rights generally, by the exercise of judicial discretion in accordance with general principles of equity or otherwise in appropriate cases and by limitations on remedies against public agencies in the State of California.

2. The Indenture has been duly authorized by the Authority, is valid and binding upon the Authority, creates a valid pledge of that which the Indenture purports to pledge and is enforceable in accordance with its terms, except to the extent that enforceability may be limited by moratorium, bankruptcy, reorganization, fraudulent conveyance or transfer, insolvency or other laws affecting creditors' rights generally, by the exercise of judicial discretion in accordance with general principles of equity or otherwise in

appropriate cases and by limitations on remedies against public agencies in the State of California; provided, however, that we express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the Indenture.

3. Under existing statutes, regulations, rulings and judicial decisions, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations.

4. Interest on the Bonds is exempt from State of California personal income tax.

5. The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity are to be sold to the public) and the stated redemption price at maturity with respect to such Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bond owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Bond owner will increase the Bond owner's basis in the applicable Bond. Original issue discount that accrues to the Bond owner is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations (as described in paragraph 3 above), and is exempt from State of California personal income tax.

6. The amount by which a Bond owner's original basis for determining loss on sale or exchange of the applicable Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Bond premium, which must be amortized under Section 171 of the Code; such amortizable Bond premium reduces the Bond owner's basis in the applicable Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Bond premium may result in a Bond owner realizing a taxable gain when a Bond is sold by the owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the owner.

The opinions expressed in paragraphs 3 and 5 above as to the exclusion from gross income for federal income tax purposes of interest (and original issue discount) on the Bonds are subject to the condition that the Authority and the Water District comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code") that must be satisfied subsequent to the issuance of the Bonds to assure that such interest (and original issue discount) will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The Authority and the Water District each have covenanted to comply with all such requirements. Except as set forth in paragraphs 3 through 6 above, we express no opinion as to any tax consequences related to the Bonds.

Certain requirements and procedures contained or referred to in the Indenture, the Tax Certificate and the Improvement District Resolutions (as defined in the Indenture) may be changed, and certain actions may be taken, under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax-exempt obligations. We express no opinion as to the effect on the exclusion of interest (and original issue discount) on the Bonds from gross income for federal income tax purposes on and after the date on which any such change occurs or action is taken upon the advice or approval of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

We are admitted to the practice of law only in the State of California and our opinion is limited to matters governed by the laws of the State of California and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction.

The opinions expressed herein may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Our engagement as Bond Counsel terminates upon the issuance of the Bonds and we have not undertaken to determine, or to inform any person, whether any such actions or events are taken (or not taken) or do occur (or do not occur).

The opinions expressed herein are based upon our analysis and interpretation of existing laws, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement relating to the Bonds or other offering material relating to the Bonds and expressly disclaim any duty to advise the owners of the Bonds with respect to matters contained in the Official Statement and any offering material relating to the sale of the Bonds.

Respectfully submitted,

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APPENDIX F

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE IMPROVEMENT DISTRICT RESOLUTIONS

The following is a summary of certain provisions of the Indenture which are not described elsewhere in the Official 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.* All capitalized terms not defined in the Official Statement have the meanings set forth in the Indenture or the Improvement District Resolutions, as applicable.

SUMMARY OF INDENTURE OF TRUST

DEFINITIONS

“Act” means Articles 1 through 4 (commencing with Section 6500) of Chapter 5, Division 7, Title 1 of the Government Code of the State of California.

“Authority” means the Western Riverside Water and Wastewater Financing Authority, a joint powers authority organized and existing under the Act and any successor thereto.

“Authorized Representative” means: (a) with respect to the Authority, its Chairperson, the Executive Director, the Deputy Executive Director, the Secretary, the Treasurer, or any other Person designated as an Authorized Representative of the Authority by a Written Certificate of the Authority signed by its Chairperson and filed with the District and the Trustee; (b) with respect to the District, its General Manager, Chief Financial Officer or Treasurer, or any other Person designated as an Authorized Representative of the Authority in a Written Certificate of the District signed by its General Manager and filed with the Authority and the Trustee; and (c) with respect to the Trustee, any Senior Vice President, Vice President, Assistant Vice President or Trust Officer of the Trustee, and when used with reference to any act or document also means any other Person authorized to perform such act or sign any document by or pursuant to a resolution of the Board of Directors of the Trustee or the by-laws of the Trustee.

“Bond Acquisition Fund” means the fund by that name established and held by the Trustee pursuant to the Indenture.

“Bond Counsel” means Stradling Yocca Carlson & Rauth, a Professional Corporation, and its successors; or any other firm of nationally recognized bond counsel selected by the District and acceptable to the Authority.

“Bond Insurance Policy” means that certain financial guaranty insurance policy issued by the Bond Insurer that guarantees the scheduled payment of principal of and interest on the Bonds when due.

“Bond Insurer” means Assured Guaranty Corp., a Maryland insurance corporation, or any successor or assign thereto.

“Bond Law” means the Articles 1 through 4 (commencing with Section 6500) of Chapter 5 of Division 7 of Title 1 of the California Government Code, as amended from time to time.

“Bond Purchase Agreement” means the Bond Purchase Agreement, dated as of July 29, 2009, by and among the District, the Authority and the Underwriter, as originally executed or as thereafter amended pursuant to any duly authorized and executed amendments thereto.

“Bond Year” means each twelve-month period beginning on September 1 in any year and extending to, but excluding, the next succeeding September 1; except that the first Bond Year shall begin on the Closing Date and end on September 1, 2009.

“Bonds” means the Western Riverside Water and Wastewater Financing Authority Revenue Bonds, Series 2009 (Eastern Municipal Water District Improvement Districts General Obligation Bond Financing), issued in the aggregate principal amount of \$31,625,000 and authorized by, and at any time Outstanding pursuant to, the Indenture.

“Business Day” means a day which is not a Saturday, Sunday or a day on which the New York Stock Exchange is closed or on which banking institutions in the State of California or in any state in which the Office of the Trustee is located, are authorized or required to be closed.

“Closing Date” means the date on which the Bonds are delivered to, or for the benefit of, the Underwriter.

“Depository” means The Depository Trust Company or a substitute therefor determined pursuant to the Indenture.

“District” means Eastern Municipal Water District, and any successor thereto.

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

“Federal Securities” means any of the following which at the time of investment are legal investments under the laws of the State of California for the funds proposed to be invested therein: (a) direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America); and (b) obligations of any agency, department or instrumentality of the United States of America the timely payment of principal of and interest on which are fully guaranteed by the United States of America.

“Fitch” means Fitch Ratings, a corporation organized and existing under the laws of the State of Delaware, and its successors and assigns, and if such organization shall for any reason no longer perform the functions of a securities rating agency, such term shall be deemed to refer to any other nationally recognized rating agency designated by the District.

“Fiscal Year” means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other twelve-month period hereafter selected and designated as the official fiscal year period of the Authority designated in a Written Certificate of the Authority delivered to the Trustee.

“Improvement Bond Paying Agent” means U.S. Bank National Association or any other entity that is designated in accordance with the respective Resolutions of Issuance of the Improvement Bonds described in the Indenture as successor Paying Agent for the Improvement Bonds.

“Improvement Bonds” means the \$31,625,000 aggregate principal amount of bonds delivered under and pursuant to the Bond Purchase Agreement as described in the Indenture.

“Improvement Districts” means Improvement District Nos. 21, 23, U-4, U-6, U-9, U-15, U-17, U-20, U-22, U-35 and U-36 of the District.

“Indenture” means the Indenture, as originally executed or as it may from time to time be supplemented, modified or amended by any supplemental indenture.

“Independent Financial Consultant” means any financial consultant or firm of such financial consultants appointed by the Authority and who, or each of whom: (a) is judged by the Authority to have experience with respect to the financing of public capital improvement projects; (b) is in fact independent and not under the domination of the Authority; (c) does not have any substantial interest, direct or indirect, with the Authority, other than as Underwriter; and (d) is not connected with the Authority as an officer or employee of the Authority, but who may be regularly retained to make reports to the Authority.

“Information Services” means national information services that disseminate securities redemption notices; or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other services providing information with respect to called bonds as the District may specify in a Written Certificate delivered to the Authority and the Trustee.

“Interest Account” means the account by that name established and held by the Trustee pursuant to the Indenture.

“Interest Payment Date” means March 1 and September 1 in each year, commencing March 1, 2010, so long as any Bonds remain Outstanding.

“Letter of Representations” means the blanket letter of representations executed by the Authority and delivered to The Depository Trust Company.

“Moody’s” means Moody’s Investors Service, a corporation organized and existing under the laws of the State of Delaware, and its successors and their assigns, and if such corporation shall for any reason no longer perform the functions of a securities rating agency, such term shall be deemed to refer to any other nationally recognized rating agency designated by the District.

“Office of the Trustee” means the principal corporate trust office of the Trustee at 633 West Fifth Street, 24th Floor, Los Angeles, California 90071, or such other offices as may be specified to the Authority by the Trustee in writing.

“Outstanding,” when used as of any particular time with reference to Bonds, means all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except (a) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (b) Bonds with respect to which all liability of the Authority shall have been discharged in accordance with the Indenture; and (c) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to the Indenture; provided however, that Bonds paid from amounts paid by the Bond Insurer shall not be considered paid or deemed paid for purposes of the Indenture but shall remain outstanding until paid from Revenues.

“Owner” or “Bond Owner,” whenever used in the Indenture with respect to a Bond, means the Person in whose name the ownership of such Bond is registered on the Registration Books.

“Permitted Investments” means any of the following investments, if and to the extent the same is at the time of the initial purchase thereof legal for investment of the Authority’s funds (the Trustee is entitled to rely upon investment direction from the Authority as a certification that such investment is a Permitted Investment) and if at the time of the initial purchase thereof such investment satisfies the rating criteria set forth below:

1. (a) Direct obligations (other than an obligation subject to variation in principal repayment) of the United States of America (“United States Treasury Obligations”), (b) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by the United States of America, (c) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by any agency or instrumentality of the United States of America when such

obligations are backed by the full faith and credit of the United States of America, or (d) evidences of ownership of proportionate interests in future interest and principal payments on obligations described above held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying government obligations are not available to any Person claiming through the custodian or to whom the custodian may be obligated.

2. Federal Housing Administration debentures.
3. The listed obligations of government-sponsored agencies:
 - Federal Home Loan Mortgage Corporation (FHLMC)
Participation certificates (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts)
Senior Debt obligations
 - Farm Credit Banks (formerly: Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives)
Consolidated system-wide bonds and notes
 - Federal Home Loan Banks (FHL Banks)
Consolidated debt obligations
 - Federal National Mortgage Association (FNMA)
Senior debt obligations
Mortgage-backed securities (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts)
 - Financing Corporation (FICO)
Debt obligations
 - Resolution Funding Corporation (REFCORP)
Debt obligations
4. Unsecured certificates of deposit, time deposits, and bankers' acceptances (having maturities of not more than 30 days) of any bank (including the Trustee and any affiliate) the short-term obligations of which are rated "A-1" or better by S&P.
5. Deposits the aggregate amount of which are fully insured by the Federal Deposit Insurance Corporation (FDIC) in banks (including the Trustee and any affiliate) which have capital and surplus of at least \$5 million.
6. Commercial paper (having original maturities of not more than 270 days rated "A-1+" by S&P and "Prime-1" by Moody's).
7. Money market funds in the highest rating category by Moody's and S&P (including such funds of the Trustee or its affiliates).
8. "State Obligations," which means:
 - (a) Direct general obligations of any state of the United States of America or any subdivision or agency thereof to which is pledged the full faith and credit of a state the unsecured general obligation debt of which is rated "A3" by Moody's and "A" by S&P, or better, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose unsecured general obligation debt is so rated.
 - (b) Direct general short-term obligations of any state agency or subdivision or agency thereof described in (a) above and rated "A-1+" by S&P and "Prime-1" by Moody's.

(c) Special Revenue Bonds (as defined in the United States Bankruptcy Code) of any state, state agency or subdivision described in (a) above and rated “AA” or better by S&P and “Aa” or better by Moody’s.

9. Pre-refunded municipal obligations rated “AAA” by S&P and “Aaa” by Moody’s meeting the following requirements:

(a) the municipal obligations are (1) not subject to redemption prior to maturity or (2) the paying agent for the municipal obligations has been given irrevocable instructions concerning their call and redemption and the issuer of the municipal obligations has covenanted not to redeem such municipal obligations other than as set forth in such instructions;

(b) the municipal obligations are secured by cash or United States Treasury Obligations which may be applied only to payment of the principal of, interest and premium on such municipal obligations;

(c) the principal of and interest on the United States Treasury Obligations (plus any cash in the escrow) has been verified by the report of independent certified public accountants to be sufficient to pay in full all principal of, interest, and premium, if any, due and to become due on the municipal obligations (“Verification”);

(d) the cash or United States Treasury Obligations serving as security for the municipal obligations are held by an escrow agent or paying agent in trust for owners of the municipal obligations;

(e) no substitution of a United States Treasury Obligation shall be permitted except with another United States Treasury Obligation and upon delivery of a new Verification; and

(f) the cash or United States Treasury Obligations are not available to satisfy any other claims, including those by or against the paying agent or escrow agent.

10. Repurchase agreements:

With (1) any domestic bank, or domestic branch of a foreign bank, the long term debt of which is rated at least “A” (Stable) by S&P and Moody’s; or (2) any broker-dealer with “retail customers” or a related affiliate thereof which broker-dealer has, or the parent company (which guarantees the provider) of which has, long-term debt rated at least “A” (Stable) by S&P and Moody’s, which broker-dealer falls under the jurisdiction of the Securities Investors Protection Corporation; or (3) any other entity rated “AA” (Stable) or better by S&P and “Aa” (Stable) or better by Moody’s, provided that:

(a) Collateral shall be limited to securities described in paragraph (1) of this definition with maturities of five years or less;

(b) The market value of the collateral is maintained at levels equal to 105% of the amount of cash transferred by the Trustee or the District to the provider of the repurchase agreement plus accrued interest with the collateral being valued weekly and marked-to-market at one current market price plus accrued interest;

(c) The Trustee or a third party acting solely as agent therefor or for the District (the “Holder of the Collateral”) has possession of the collateral or the collateral has been transferred to the

Holder of the Collateral in accordance with applicable state and federal laws (other than by means of entries on the transferor's books);

(d) The repurchase agreement shall state and an opinion of counsel shall be rendered at the time such collateral is delivered that the Holder of the Collateral has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Holder of the Collateral is in possession); and

(e) The repurchase agreement shall provide that if during its term the provider's rating by either Moody's or S&P is withdrawn or suspended or falls below "A" by S&P or "A3" by Moody's, as appropriate, the provider must, at the direction of Trustee or the District, within 10 days of receipt of such direction, repurchase all collateral and terminate the agreement, with no penalty or premium to the Trustee or the District.

11. Investment agreements with a domestic or foreign bank or corporation (other than a life or property casualty insurance company) the long-term debt of which or, in the case of a guaranteed corporation the long-term debt, or, in the case of a monoline financial guaranty insurance company, claims paying ability, of the guarantor is rated at least "AA" by S&P and "Aa" by Moody's; provided that, by the terms of the investment agreement:

(a) interest payments are to be made to the Trustee or the Authority at times and in amounts as necessary to pay debt service on the Bonds;

(b) the invested funds are available for withdrawal without penalty or premium, at any time upon not more than seven days' prior notice; the Trustee or the Authority hereby agrees to give or cause to be given notice in accordance with the terms of the investment agreement so as to receive funds thereunder with no penalty or premium paid;

(c) the investment agreement shall state that is the unconditional and general obligation of, and is not subordinated to any other obligation of, the provider thereof, or, in the case of a bank, that the obligation of the bank to make payments under the agreement ranks *pari passu* with the obligations of the bank to its other depositors and its other unsecured and unsubordinated creditors;

(d) the Trustee or the Authority receives the opinion of domestic counsel (which opinion shall be addressed to Trustee or the Authority) that such investment agreement is legal, valid, binding and enforceable upon the provider in accordance with its terms and of foreign counsel (if applicable) in form and substance acceptable, and addressed to, the Trustee or the Authority;

(e) the investment agreement shall provide that if during its term

(i) the provider's rating by either S&P or Moody's falls below "AA-" or "Aa3", respectively, the provider shall, at its option, within 10 days of receipt of publication of such downgrade, either (y) collateralize the investment agreement by delivering or transferring in accordance with applicable state and federal laws (other than by means of entries on the provider's books) to the Authority, the Trustee or a third party acting solely as agent therefor (the "Holder of the Collateral") collateral free and clear of any third-party liens or claims the market value of which collateral is maintained at levels and upon such conditions as would be acceptable to S&P and Moody's to maintain an "A" rating in an "A" rated structured financing (with a market value approach); or (z) repay the principal of and accrued but unpaid interest on the investment; and

(ii) the provider's rating by either S&P or Moody's is withdrawn or suspended or falls below "A-" or "A3", respectively, the provider must, at the direction of the Trustee or

the Authority, within 10 days of receipt of such direction, repay the principal of and accrued but unpaid interest on the investment, in either case with no penalty or premium to the Trustee or Authority; and

(f) the investment agreement shall state and an opinion of counsel shall be rendered, in the event collateral is required to be pledged by the provider under the terms of the investment agreement at the time such collateral is delivered, that the Holder of the Collateral has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Holder of the Collateral is in possession);

(g) the investment agreement must provide that if during its term

(i) the provider shall default in its payment obligations, the provider's obligations under the investment agreement shall, at the direction of the Trustee or the District, be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Trustee or the Authority, and

(ii) the provider shall become insolvent, not pay its debts as they become due, be declared or petition to be declared bankrupt, etc. ("event of insolvency"), the provider's obligations shall automatically be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Trustee or the Authority.

12. The State of California Local Agency Investment Fund, provided that said fund shall be a Permitted Investment for all moneys held by the Authority under the Indenture, but it shall be a Permitted Investment for moneys held by the Trustee under the Indenture only if the Trustee may deposit and withdraw moneys in its own name.

"Person" means an individual, corporation, firm, association, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

"Principal Account" means the account by that name established and held by the Trustee pursuant to the Indenture.

"Rating Agencies" means Fitch and S&P and their respective successors and assigns, and if such organizations shall for any reason no longer perform the functions of securities rating agencies, such terms shall be deemed to refer to any other nationally recognized rating agency designated by the District.

"Rebate Fund" means the fund by that name established and held by the Trustee pursuant to the Indenture.

"Rebate Regulations" means any proposed, final or temporary Treasury Regulation promulgated under Section 148(f) of the Tax Code.

"Record Date" means: (a) the fifteenth (15th) calendar day of the month preceding each Interest Payment Date, whether or not such day is a Business Day, and (b) any date established by the Trustee pursuant to the Indenture as a special record date for the payment of defaulted interest on the Bonds.

"Redemption Account" means the account by that name established and held by the Trustee pursuant to Section 5.2.

"Registration Books" means the records maintained by the Trustee for the registration of ownership and registration of transfer of the Bonds pursuant to Section 2.4.

“Resolutions of Issuance” means the respective Resolutions of Issuance adopted by the District providing for the issuance of the Improvement Bonds.

“Revenue Fund” means the fund by that name established and held by the Trustee pursuant to Section 5.1.

“Revenues” means, (a) all amounts derived from or with respect to the Improvement Bonds, including but not limited to all payments of principal thereof and interest thereon, and (b) investment income with respect to any moneys held by the Trustee in the funds and accounts established under the Indenture, excluding moneys held in the Rebate Fund.

“S&P” means Standard & Poor’s Ratings Service, a division of The McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York and its successors and assigns, and if such organization shall for any reason no longer perform the functions of a securities rating agency, such term shall be deemed to refer to any other nationally recognized rating agency designated by the District.

“Securities Depositories” means The Depository Trust Company and/or such other securities depositories as the District may designate in a Written Certificate delivered to the Authority and the Trustee.

“Six-Month Period” means, with respect to the Bonds, the period of time beginning on the Closing Date and ending six consecutive months thereafter, and each six-month period thereafter until the latest maturity date of the Bonds (and any bonds that refund the Bonds).

“Tax Certificate” means that certain Tax Certificate executed on the Closing Date by the Authority with respect to the Bonds.

“Tax Code” means the Internal Revenue Code of 1986, as amended from time to time. Any reference to a provision of the Tax Code shall include the applicable regulations of the Department of the Treasury promulgated with respect to such provision.

“Trustee” means U.S. Bank National Association, a national banking association organized and existing under the laws of the United States of America, or its successor, as Trustee under the Indenture.

“Underwriter” means Piper Jaffray & Co.

“Written Certificate” and “Written Request” of the Authority or the District mean, respectively, a written certificate or written request signed in the name of the Authority by its Authorized Representative or in the name of the District by its Authorized Representative. Any such certificate or request may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument.

BOND ACQUISITION FUND

The Trustee will established a separate fund to be known as the “Bond Acquisition Fund,” which will be held by the Trustee in trust. On the Closing Date, the Trustee will withdraw from the Bond Acquisition Fund the amount deposited therein pursuant to the Indenture and will apply such amount to the purchase on such date of the Improvement Bonds, all pursuant to and in accordance with the provisions of the Indenture and the Bond Purchase Agreement and the Written Request of the Authority. The Improvement Bonds will be delivered to and held by the Trustee on behalf of the Authority until paid.

SECURITY OF BONDS; FLOW OF FUNDS; INVESTMENTS

Pledge and Assignment; Revenue Fund

Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture, all of the Revenues and any other amounts (including proceeds of the sale of the Bonds) held in any fund or account established pursuant to the Indenture, except money held in the Rebate Fund, are by the Indenture pledged by the Authority to secure the payment of the principal of and interest on the Bonds in accordance with their terms and the provisions of the Indenture. Said pledge will constitute a lien on and security interest in such assets and will attach, be perfected and be valid and binding from and after the Closing Date.

The Authority will transfer in trust and assign to the Trustee, for the benefit of the Owners from time to time of the Bonds, all of the Revenues and all of the right, title and interest of the Authority in the Improvement Bonds. The Trustee will be entitled to and will collect and receive all of the Revenues, and all Revenues collected or received by the Authority will be deemed to be held, and to have been collected or received, by the Authority and will forthwith be paid by the Authority to the Trustee. The Trustee also will be entitled to and may take all steps, actions and proceedings reasonably necessary in its judgment to enforce, either jointly with the Authority or separately, all of the rights of the Authority and all of the obligations of the District under and with respect to the Improvement Bonds.

Subject to the Indenture, all Revenues will be promptly deposited by the Trustee upon receipt thereof in a special fund designated as the “Revenue Fund” which the Trustee will establish, maintain and hold in trust. All Revenues deposited with the Trustee will be held, disbursed, allocated and applied by the Trustee only as provided in the Indenture.

Application of Revenue Fund

The Trustee will transfer from the Revenue Fund and deposit into the following respective accounts (each of which the Trustee will establish and maintain in trust separate and distinct from the other funds and accounts established under the Indenture), the following amounts at the following times in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account lower in priority:

- (a) On each Interest Payment Date, the Trustee will deposit in the Interest Account an amount which, together with the amounts then on deposit therein, is required to cause the aggregate amount on deposit in the Interest Account to equal the amount of interest coming due and payable on the Bonds on such Interest Payment Date.
- (b) On each September 1, commencing September 1, 2010, the Trustee will deposit in the Principal Account an amount which, together with the amounts then on deposit therein, is required to cause the aggregate amount on deposit in the Principal Account to equal the amount of principal (if

any) coming due and payable (whether at maturity or by reason of mandatory sinking fund redemption) on the outstanding Bonds on such September 1.

(c) On each day on which it receives amounts resulting from an optional redemption of an Improvement Bond from the Improvement Bond Paying Agent, the Trustee will deposit:

(i) in the Interest Account, Revenues in an amount equal to the interest payable upon the redemption of the Bonds to be called and redeemed as a result of such Improvement Bond redemption, and

(ii) in the Redemption Account, the Revenues representing the principal amount of the redemption and any redemption premium associated therewith.

The Trustee will also deposit in the Redemption Account any other money delivered to it by the Authority accompanied by a Written Request of the Authority that such money be so deposited.

Application of Interest Account

Subject to the provisions of the Indenture, all amounts in the Interest Account will be used and withdrawn by the Trustee solely for the purpose of paying interest on the Bonds as it will become due and payable. Any amounts on deposit in the Interest Account on any Interest Payment Date and not required to pay interest then due and payable on the Bonds will be retained in the Interest Account and credited towards the payment of interest on the Bonds next coming due.

Application of Principal Account

Subject to the provisions of the Indenture, all amounts in the Principal Account will be used and withdrawn by the Trustee solely to pay the principal of the Bonds whether at the stated maturity thereof or by reason of mandatory sinking fund redemption.

Application of Redemption Account

Amounts in the Redemption Account will be used and withdrawn by the Trustee solely for the purpose of paying the principal of and redemption premium, if any, of Bonds called for redemption pursuant to the Indenture.

Application of Surplus

On September 1 of each year after all payments have been made as provided in the Indenture, the balance of money in the Revenue Fund will, at the Written Request of the Authority, be transferred to the Rebate Fund, the Interest Account, the Principal Account or returned to the District to be used for any lawful purpose of the District.

Investment of Moneys

Except as otherwise provided in the Indenture, all moneys in any of the funds or accounts established pursuant to the Indenture will be invested by the Trustee solely in Permitted Investments, as directed in writing by the Authority at least two (2) Business Days prior to the making of such investment. Permitted Investments may be purchased at such prices as the Authority will determine. All Permitted Investments will be acquired subject to any restrictive instructions given to the Trustee pursuant to the Indenture and such additional limitations or requirements consistent with the foregoing as may be established by the Written Request of the Authority. Moneys in all funds and accounts will be invested in Permitted Investments maturing not later than the date on which it is estimated that such moneys will be required for the purposes specified in the Indenture.

Absent timely written direction from the Authority, the Trustee will invest any funds held by it in Permitted Investments described in clause (7) of the definition thereof.

The Trustee may act as principal or agent in the making or disposing of any investment. The Trustee will sell or present for redemption, any Permitted Investments so purchased whenever it will be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund to which such Permitted Investments are credited, and the Trustee will not be liable or responsible for any loss resulting from any investment made or sold pursuant to the Indenture. For purposes of investment, the Trustee may commingle moneys in any of the funds and accounts established under the Indenture.

The Authority acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the Authority the right to receive the brokerage confirmations of security transactions as they occur, the Authority specifically waives receipt of such confirmations to the extent permitted by law. The Trustee will furnish the Authority with periodic cash transaction statements which include detail for all investment transactions made by the Trustee under the Indenture. The Trustee may make any investments under the Indenture through its own bond or investment department or trust investment department, or those of its parent or any affiliate. The Trustee or any of its affiliates may act as sponsor, advisor or manager in connection with any investments made by the Trustee under the Indenture.

PARTICULAR COVENANTS

Punctual Payment

The Authority will punctually pay or cause to be paid the principal, premium, if any, and interest to become due in respect of all the Bonds, in strict conformity with the terms of the Bonds and of the Indenture, according to the true intent and meaning thereof, but only out of Revenues and other assets pledged for such payment as provided in the Indenture and received by the Authority or the Trustee.

Extension of Payment of Bonds

Except with the written consent of each Owner whose Bond would be affected thereby, the Authority will not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or of the Improvement Bonds or the time of payment of any claims for interest by the purchase of such Bonds or of the Improvement Bonds or by any other arrangement, and in case the maturity of any of the Bonds or of the Improvement Bonds or the time of payment of any such claims for interest will be extended, such Bonds or claims for interest will not be entitled, in case of any default under the Indenture, to the benefits of the Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest thereon which will not have been so extended. Nothing in the Indenture will be deemed to limit the right of the Authority to issue Bonds for the purpose of refunding any Outstanding Bonds, and such issuance will not be deemed to constitute an extension of maturity of the Bonds.

Against Encumbrances

Except to the extent expressly permitted in the Indenture, the Authority will not create, or permit the creation of, any pledge, lien, charge or other encumbrance upon the Revenues and other assets pledged or assigned under the Indenture while any of the Bonds are Outstanding, except the pledge and assignment created by the Indenture. Subject to this limitation, the Authority expressly reserves the right to enter into one or more other indentures for any of its corporate purposes, including other programs under the Bond Law, and reserves the right to issue other obligations for such purposes.

Power to Issue Bonds and Make Pledge and Assignment

The Authority is duly authorized pursuant to law to issue the Bonds and to enter into the Indenture and to pledge and assign the Revenues and other assets purported to be pledged and assigned, respectively, under the Indenture in the manner and to the extent provided in the Indenture. The Bonds and the provisions of the Indenture are and will be the legal, valid and binding special obligations of the Authority in accordance with their terms, and the Authority and the Trustee (subject to the provisions of the Indenture) will at all times, to the extent permitted by law, defend, preserve and protect said pledge and assignment of Revenues and other assets and all the rights of the Bond Owners under the Indenture against all claims and demands of all Persons whomsoever.

Accounting Records and Financial Statements

The Trustee will at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with the Trustee's accounting practices for books of record and account relating to similar trust accounts, in which complete and accurate entries will be made of all transactions of the Trustee relating to the proceeds of the Bonds, the Revenues, the Improvement Bonds and all funds and accounts established pursuant to the Indenture. Such books of record and account will be available for inspection by the Authority and the District, during regular business hours and upon reasonable notice and under reasonable circumstances as agreed to by the Trustee.

Waiver of Laws

The Authority will not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of, any stay or extension law now or at any time hereafter in force that may affect the covenants and agreements contained in the Indenture or in the Bonds, and all benefit or advantage of any such law or laws is by the Indenture expressly waived by the Authority to the extent permitted by law.

Collection of Revenues

The Trustee will collect and cause to be paid to it all Revenues promptly as such Revenues become due and payable, and will enforce and cause to be enforced all rights of the Trustee under and with respect to the Improvement Bonds.

Disposition of Improvement Bonds

The Trustee will not sell or otherwise dispose of the Improvement Bonds, or any interest therein, unless either (a) there will have occurred and be continuing an Event of Default under the Indenture, or (b) the proceeds derived by the Trustee from such sale or other disposition are sufficient to enable the Trustee to redeem or defease all of the Outstanding Bonds in accordance with the terms of the Indenture. Absent an opinion of Bond Counsel that the exclusion from gross income of interest on the Bonds will not be adversely affected for federal income tax purposes, the Authority will not sell or permit the sale of the Improvement Bonds.

Amendment of Improvement Bonds

Neither the Trustee nor the Authority will consent or agree to consent to any amendment or modification of any of the Resolutions of Issuance or the Improvement Bonds, unless the Authority will have obtained, and caused to be filed with the Trustee, (a) the report of an Independent Financial Consultant acceptable to the District stating that such amendment or modification will not cause a reduction in the amount of Revenues required to pay annual debt service on the Bonds and will not materially adversely impair the interests of the Bond Owners under the Indenture, (b) an opinion of Bond Counsel acceptable to the District stating that such amendment or modification will not cause interest on the Bonds to be includable in gross

income of the Bond Owners for federal income tax purposes and, so long as the Bond Insurance Policy is in full force and effect and the Bond Insurer is not in default on any of its payment obligations thereunder, (c) the written consent of the Bond Insurer to such amendment or modification.

Tax Covenants Relating to Bonds

Notwithstanding any other provision of the Indenture, absent an opinion of Bond Counsel that the exclusion from gross income of interest with respect to the Bonds will not be adversely affected for federal income tax purposes, the Authority covenants to comply with all applicable requirements of the Tax Code necessary to preserve such exclusion from gross income and specifically covenants, without limiting the generality of the foregoing, as follows:

- (a) Private Business Use. The Authority will assure that the proceeds of the Bonds are not used in a manner which would cause the Bonds to be “private activity bonds” within the meaning of Section 141 of the Tax Code. The Authority will not allow any of the proceeds of the Bonds, or any refinanced obligations, or any of the facilities financed with such obligations, to be used in the trade or business of any nongovernmental persons (other than in their roles as members of the general public) and will not loan any of the proceeds of the Bonds, or any refinanced obligations, to any nongovernmental persons. Further, the Authority will not voluntarily sell (nor voluntarily permit the sale) to any nongovernmental persons (or otherwise permit the privatization of) the facilities financed by the Bonds and the obligations refinanced by the Bonds;
- (b) Arbitrage. The Authority will not make any use of the proceeds of the Bonds or of any other amounts or property, regardless of the sources, or take or omit to take any action which would cause the Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Tax Code;
- (c) Federal Guarantee. The Authority will not make any use of the proceeds of the Bonds or take or omit to take any action that would cause the Bonds to be “federally guaranteed” within the meaning of Section 149(b) of the Tax Code;
- (d) Information Reporting. The Authority will take or cause to be taken all necessary action to comply with the information reporting requirements of Section 149(e) of the Tax Code;
- (e) Hedge Bonds. The Authority will not make any use of the proceeds of the Bonds or any other amounts or property, regardless of the source, or take or omit to take any action that would cause the Bonds to be considered “hedge bonds” within the meaning of Section 149(g) of the Tax Code unless the Authority takes all necessary action to assure compliance with the requirements of Section 149(g) of the Tax Code to maintain the exclusion from gross income of interest on the Bonds for federal income tax purposes; and
- (f) Miscellaneous. The Authority will not take any action inconsistent with its expectations stated in that certain Tax Certificate executed on the Closing Date by the Authority in connection with the issuance of the Bonds and will comply with the covenants and requirements stated therein and incorporated by reference in the Indenture.

These covenants stated in the Indenture will survive the defeasance of the Bonds.

Rebate Fund

- (a) Establishment. A special fund is by the Indenture created and designated the “Rebate Fund” to be held by the Trustee and in which there will be established two separate accounts designated the “Rebate Account” and the “Alternative Penalty Account.” Absent an opinion of Bond Counsel acceptable to the Authority that the exclusion from gross income for federal income tax

purposes of interest on the Bonds will not be adversely affected, the Authority will cause to be deposited in each such account of the Rebate Fund such amounts as are required to be deposited therein pursuant to the Indenture and the Tax Certificate. All money at any time deposited in the Rebate Account or the Alternative Penalty Account will be held by the Trustee in trust for payment to the United States Treasury. All amounts on deposit in the Rebate Fund will be governed by the Indenture and the Tax Certificate, unless and to the extent that the Authority delivers to the Trustee an opinion of Bond Counsel acceptable to the Authority that the exclusion from gross income for federal income tax purposes of interest on the Bonds will not be adversely affected if such requirements are not satisfied.

(i) Rebate Account. The following requirements will be satisfied with respect to the Rebate Account:

(A) Annual Computation. Within 55 days of the end of each Bond Year, the Authority will calculate or cause to be calculated the amount of rebatable arbitrage, in accordance with Section 148(f)(2) of the Tax Code and Section 1.148-3 of the Rebate Regulations (taking into account any applicable exceptions with respect to the computation of the rebatable arbitrage, described, if applicable, in the Tax Certificate (e.g., the temporary investments exceptions of Section 148(f)(4)(B) and (C) of the Code), and taking into account whether the election pursuant to Section 148(f)(4)(C)(vii) of the Code (the “1½% Penalty”) has been made), for this purpose treating the last day of the applicable Bond Year as a computation date, within the meaning of Section 1.148-1(b) of the Rebate Regulations (the “Rebatable Arbitrage”). The Authority will obtain expert advice as to the amount of the Rebatable Arbitrage to comply with the Indenture.

(B) Annual Transfer. Within 55 days of the end of each applicable Bond Year, upon the written direction of a representative of the Authority, an amount will be deposited to the Rebate Account by the Trustee from any funds legally available for such purpose (as specified by the Authority in the aforesaid written direction), if and to the extent required so that the balance in the Rebate Account will equal the amount of Rebatable Arbitrage so calculated in accordance with the Indenture. In the event that immediately following the transfer required by the previous sentence, the amount then on deposit to the credit of the Rebate Account exceeds the amount required to be on deposit therein, upon written instructions from an Authority representative, the Trustee will withdraw the excess from the Rebate Account and then credit the excess to the Revenue Fund.

(C) Payment to the Treasury. The Trustee will pay, as directed by a representative of the Authority, to the United States Treasury, out of amounts in the Rebate Account,

(1) Not later than 60 days after the end of (A) the fifth Bond Year, and (B) each applicable fifth Bond Year thereafter, an amount equal to at least 90% of the Rebatable Arbitrage calculated as of the end of such Bond Year; and

(2) Not later than 60 days after the payment of all the Bonds, an amount equal to 100% of the Rebatable Arbitrage calculated as of the end of such applicable Bond Year, and any income attributable to the Rebatable Arbitrage, computed in accordance with Section 148(f) of the Code.

In the event that, prior to the time of any payment required to be made from the Rebate Account, the amount in the Rebate Account is not sufficient to make such payment when such payment is due, the Authority will calculate or cause to be calculated the amount of such deficiency and deposit an amount received from any legally available source equal to such deficiency prior to the time such payment is due. Each payment required to be made pursuant to the provisions of the Indenture summarized under the heading “Rebate Fund” will be made to the Internal Revenue Service Center, Ogden, Utah 84201 on or before the date on which such

payment is due, and will be accompanied by Internal Revenue Service Form 8038-T, or will be made in such other manner as provided under the Tax Code.

(ii) Alternative Penalty Account.

(A) Six-Month Computation. If the 1½% Penalty has been elected, within 85 days of each particular Six-Month Period, the Authority will determine or cause to be determined whether the 1½% Penalty is payable (and the amount of such penalty) as of the close of the applicable Six-Month Period. The Authority will obtain expert advice in making such determinations.

(B) Six-Month Transfer. Within 85 days of the close of each Six-Month Period, upon the written direction of an Authority representative, the Trustee will deposit in the Alternative Penalty Account from any legally available source of funds (as specified by the Authority in the aforesaid written direction), if and to the extent required, so that the balance in the Alternative Penalty Account equals the amount of 1½% Penalty due and payable to the United States Treasury determined as provided in the Indenture. In the event that immediately following the transfer provided in the previous sentence, the amount then on deposit to the credit of the Alternative Penalty Account exceeds the amount required to be on deposit therein to make the payments required by the Indenture, the Trustee, at the written direction of a representative of the Authority, will withdraw the excess from the Alternative Penalty Account and credit the excess to the Revenue Fund.

(C) Payment to the Treasury. The Trustee will pay, as directed in writing by an Authority representative, to the United States Treasury, out of amounts in the Alternative Penalty Account, not later than 90 days after the close of each Six-Month Period the 1½% Penalty, if applicable and payable, computed in accordance with the Indenture of the Tax Code. In the event that, prior to the time of any payment required to be made from the Alternative Penalty Account, the amount in such account is not sufficient to make such payment when such payment is due, the Authority will calculate the amount of such deficiency and direct the Trustee to deposit an amount received from any legally available source of funds equal to such deficiency into the Alternative Penalty Account prior to the time such payment is due. Each payment required to be made pursuant to the Indenture will be made to the Internal Revenue Service Center, Ogden, Utah 84201 on or before the date on which such payment is due, and will be accompanied by Internal Revenue Service Form 8038-T or will be made in such other manner as provided under the Tax Code.

(D) Disposition of Unexpended Funds. Any funds remaining in the Rebate Fund after redemption and payment of the Bonds, the payments described in the Indenture (whichever is applicable), may be withdrawn by the District and utilized in any manner by the District.

(E) Survival of Defeasance. Notwithstanding anything in the Indenture to the contrary, the obligation to comply with the requirements of the Indenture and the Tax Certificate will survive the defeasance of the Bonds.

(F) Trustee Compliance. The Trustee will be deemed to have complied with the Indenture and the Tax Certificate if it follows the written direction of the Authority and will have no independent responsibility to, or liability resulting from its failure to, enforce compliance by the Authority with the terms of the Tax Certificate.

Further Assurances

The Authority will make, execute and deliver any and all such further indentures, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance

of the Indenture and for the better assuring and confirming unto the Owners of the Bonds of the rights and benefits provided in the Indenture.

EVENTS OF DEFAULT AND REMEDIES OF BOND OWNERS

Events of Default

The following events will be Events of Default:

- (a) Failure to pay any installment of principal of any Bonds when and as the same will become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by acceleration, or otherwise;
- (b) Failure to pay any installment of interest on any Bonds when and as the same will become due and payable;
- (c) Failure by the Authority to observe and perform any of the other covenants, agreements or conditions on its part in the Indenture or in the Bonds contained, if such failure will have continued for a period of thirty (30) days after written notice thereof, specifying such failure and requiring the same to be remedied, will have been given to the Authority by the Trustee or the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds at the time Outstanding; provided, however, if in the reasonable opinion of the Authority the failure stated in the notice can be corrected, but not within such thirty (30) day period, such failure will not constitute an Event of Default if corrective action is instituted by the Authority within such thirty (30) day period and the Authority will thereafter diligently and in good faith cure such failure in a reasonable period of time;
- (d) The Authority will commence a voluntary case under Title 11 of the United States Code or any substitute or successor statute; and
- (e) An event of default under any of the Resolutions of Issuance.

The Trustee will have no responsibility for making, or obligation to make, any determination that any such Event of Default has occurred by reason of any willful action (or inaction) taken (or not taken) by or on behalf of the Authority pursuant to the Indenture;

Remedies Under Improvement Bonds

If any Event of Default will occur under the Indenture or otherwise as a result of any event of default under any of the Resolutions of Issuance then, and in each and every such case during the continuance of such Event of Default, the Trustee or the Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding may, upon notice in writing to the Authority (but only with the written consent of the Bond Insurer so long as the Bond Insurance Policy is in full force and effect and the Bond Insurer is not in default on any of its payment obligations thereunder), exercise any and all remedies available pursuant to law or granted with respect to the Improvement Bonds.

Other Remedies of Bond Owners

Subject to the provisions of the Indenture, any Bond Owner will have the right, for the equal benefit and protection of all Bond Owners similarly situated:

- (a) by mandamus, suit, action or proceeding, to compel the Authority and its members, officers, agents or employees to perform each and every term, provision and covenant contained in the

Indenture and in the Bonds, and to require the carrying out of any or all such covenants and agreements of the Authority and the fulfillment of all duties imposed upon it by the Bond Law;

(b) by suit, action or proceeding in equity, to enjoin any acts or things which are unlawful, or the violation of any of the Bond Owners' rights; or

(c) upon the happening of any Event of Default, by suit, action or proceeding in any court of competent jurisdiction, to require the Authority and its members and employees to account as if it and they were the trustees of an express trust.

Application of Revenues and Other Funds After Default

If an Event of Default will occur and be continuing, all Revenues and any other funds then held or thereafter received by the Trustee under any of the provisions of the Indenture will be applied by the Trustee as follows and in the following order:

(a) to the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Owners of the Bonds and payment of reasonable fees, charges and expenses of the Trustee (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under the Indenture;

(b) to the payment of the principal of and interest then due with respect to the Bonds (upon presentation of the Bonds to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) and, if the amount available will not be sufficient to pay in full any installment or installments of principal maturing on the same date and interest due on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the Persons entitled thereto, without any discrimination or preference; and

(c) Any remaining funds will be deposited in the Revenue Fund.

Trustee to Represent Bond Owners

The Trustee is irrevocably appointed by the Indenture (and the successive respective Owners of the Bonds, by taking and holding the same, will be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney-in-fact of the Owners of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to the Owners under the provisions of the Bonds, the Indenture, the Bond Law and applicable provisions of any other law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Bond Owners, the Trustee in its discretion may, and upon the written request of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, and upon being indemnified to its reasonable satisfaction therefor, will, proceed to protect or enforce its rights or the rights of such Owners by such appropriate action, suit, mandamus or other proceedings as it will deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained in the Indenture, or in aid of the execution of any power in the Indenture granted, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee and such Owners under the Bonds, the Indenture, the Bond Law or any other law; and upon instituting such proceeding, the Trustee will be entitled, as a matter of right, to the appointment of a receiver of the Revenues and other assets pledged under the Indenture, pending such proceedings. All rights of action under the Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee will be brought in the name of the Trustee for the benefit and protection of the Owners of such Bonds, subject to the provisions of the Indenture.

Limitation on Bond Owners' Right to Sue

No Owner of any Bonds will have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture, the Resolutions of Issuance, the Bond Law or any other applicable law with respect to such Bonds, unless (a) such Owner will have given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, will have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such suit, action or proceeding in its own name; (c) such Owner or said Owners will have tendered to the Trustee indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee will have refused or omitted to comply with such request for a period of sixty (60) days after such written request will have been received by, and said tender of indemnity will have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are by the Indenture declared, in every case, to be conditions precedent to the exercise by any Owner of Bonds of any remedy under the Indenture or under law; it being understood and intended that no one or more Owners of Bonds will have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture or the rights of any other Owners of Bonds, or to enforce any right under the Bonds, the Indenture, the Bond Law or other applicable law with respect to the Bonds, except in the manner in the Indenture provided, and that all proceedings at law or in equity to enforce any such right will be instituted, had and maintained in the manner in the Indenture provided and for the benefit and protection of all Owners of the Outstanding Bonds, subject to the provisions of the Indenture.

Absolute Obligation of Authority

Nothing in the Indenture or in any other provision of the Indenture or in the Bonds contained will affect or impair the obligation of the Authority, which is absolute and unconditional, to pay the principal of and interest on the Bonds to the respective Owners of the Bonds at their respective dates of maturity, or upon call for redemption, as in the Indenture provided, but only out of the Revenues and other assets in the Indenture pledged therefor and received by the Authority or the Trustee, or affect or impair the right of such Owners, which is also absolute and unconditional, to enforce such payment by virtue of the contract embodied in the Bonds.

Termination of Proceedings

In case any proceedings taken by the Trustee or any one or more Bond Owners on account of any Event of Default will have been discontinued or abandoned for any reason or will have been determined adversely to the Trustee or the Bond Owners, then in every such case the Authority, the Trustee and the Bond Owners, subject to any determination in such proceedings, will be restored to their former positions and rights under the Indenture, severally and respectively, and all rights, remedies, powers and duties of the Authority, the Trustee and the Bond Owners will continue as though no such proceedings had been taken.

Remedies Not Exclusive

No remedy in the Indenture conferred upon or reserved to the Trustee or to the Owners of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, will be cumulative and in addition to any other remedy given under the Indenture or now or hereafter existing at law or in equity or otherwise.

No Waiver of Default

No delay or omission of the Trustee or of any Owner of the Bonds to exercise any right or power arising upon the occurrence of any default will impair any such right or power or will be construed to be a

waiver of any such default or an acquiescence therein; and every power and remedy given by the Indenture to the Trustee or to the Owners of the Bonds may be exercised from time to time and as often as may be deemed expedient.

THE TRUSTEE

Duties and Liabilities of Trustee

In addition to the other duties of the Trustee set forth in the Indenture:

(a) Duties of Trustee Generally. The Trustee will, prior to an Event of Default, and after the curing or waiving of all Events of Default which may have occurred, perform such duties and only such duties as are expressly and specifically set forth in the Indenture. The Trustee will, during the existence of any Event of Default which has not been cured or waived, exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of his own affairs.

(b) Removal of Trustee. The Authority may, and upon Written Request of the Authority will, upon thirty (30) days' prior written notice, remove the Trustee at any time unless an Event of Default shall have occurred and then be continuing, and will remove the Trustee if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time the Trustee will cease to be eligible in accordance with the Indenture, or will become incapable of acting, or will be adjudged as bankrupt or insolvent, or a receiver of the Trustee or its property will be appointed, or any public officer will take control or charge of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Trustee and thereupon will appoint a successor Trustee by an instrument in writing.

(c) Resignation of Trustee. The Trustee may at any time resign by giving written notice of such resignation by first class mail, postage prepaid, to the Authority, and to the Bond Owners notice of such resignation at the respective addresses shown on the Registration Books. Upon receiving such notice of resignation, the Authority will promptly appoint a successor Trustee by an instrument in writing. The Trustee will not be relieved of its duties until such successor Trustee has accepted appointment.

(d) Appointment of Successor Trustee. Any removal or resignation of the Trustee and appointment of a successor Trustee will become effective upon acceptance of appointment by the successor Trustee; provided, however, that under any circumstances the successor Trustee will be qualified as provided in the Indenture. If no qualified successor Trustee will have been appointed and have accepted appointment within forty-five (45) days following giving notice of removal or notice of resignation as aforesaid, the resigning Trustee or any Bond Owner (on behalf of himself and all other Bond Owners) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under the Indenture will signify its acceptance of such appointment by executing and delivering to the Authority and to its predecessor Trustee a written acceptance thereof, and to the predecessor Trustee an instrument indemnifying the predecessor Trustee for any costs or claims arising during the time the successor Trustee serves as Trustee under the Indenture, and after payment by the Authority of all unpaid fees and expenses of the predecessor Trustee, such successor Trustee, without any further act, deed or conveyance, will become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee in the Indenture; but, nevertheless at the Written Request of the Authority or the request of the successor Trustee, such predecessor Trustee

will execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under the Indenture and will pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions in the Indenture set forth. Upon request of the successor Trustee, the Authority will execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Trustee as provided in the Indenture, the Authority will mail and carbon copy the Trustee, or cause the successor Trustee to mail, by first class mail postage prepaid, a notice of the succession of such Trustee to the trusts under the Indenture to each rating agency which then maintains a rating on the Bonds and to the Bond Owners at the addresses shown on the Registration Books. If the Authority fails to mail such notice within fifteen (15) days after acceptance of appointment by the successor Trustee, the successor Trustee will cause such notice to be mailed at the expense of the Authority.

(e) Improvement Bond Paying Agent To Act As Trustee under the Indenture. Notwithstanding anything in the Indenture to the contrary, so long as the Trustee will be the owner of the Improvement Bonds, no entity will be qualified to act as the Trustee (or to act as any successor Trustee) except the Improvement Bond Paying Agent. Upon any resignation or removal of the Improvement Bond Paying Agent in accordance with the Resolutions of Issuance for the Improvement Bonds, such event will automatically cause the resignation or removal of the Trustee under the Indenture; and upon the appointment of a successor Improvement Bond Paying Agent in accordance with the Bond Purchase Agreement, such appointment will automatically constitute the appointment of a successor Trustee under the Indenture. Under no circumstances will the Trustee be removed or resign under the Indenture unless the Improvement Bond Paying Agent will be removed or resign as such under and pursuant to the Resolutions of Issuance for the Improvement Bonds.

In the event that the Trustee will no longer be the owner of the Improvement Bonds, the Trustee appointed under the provisions of the Indenture in succession to the Trustee will be a trust company or bank having the powers of a trust company, having a combined capital and surplus of at least seventy-five million dollars (\$75,000,000) or, in the event that the Trustee is part of a banking holding company system, the bank holding company must have a combined capital (exclusive of borrowed capital) and surplus of at least fifty million dollars (\$50,000,000) and subject to supervision or examination by federal or state agency. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining agency above referred to, then for the purpose of the Indenture the combined capital and surplus of such bank or trust company will be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

In case at any time the Trustee will cease to be eligible in accordance with the provisions of the Indenture, the Trustee will resign immediately in the manner and with the effect specified in the Indenture.

Merger or Consolidation

Any bank or trust company into which the Trustee may be merged or converted or with which it may be consolidated or any bank or trust company resulting from any merger, conversion or consolidation to which it will be a party or any bank or trust company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided such bank or trust company will be eligible under the Indenture will be the successor to such Trustee, without the execution or filing of any paper or any further act, anything in the Indenture to the contrary notwithstanding.

Rights of Trustee

(a) The recitals of facts in the Indenture and in the Bonds contained will be taken as statements of the Authority, and the Trustee will not assume responsibility for the correctness of the same, or make any representations as to the validity or sufficiency of the Indenture or of the Bonds or will incur any responsibility in respect thereof, other than as expressly stated in the Indenture in connection with the respective duties or obligations in the Indenture or in the Bonds assigned to or imposed upon it. The Trustee will, however, be responsible for its representations contained in its certificate of authentication on the Bonds. The Trustee makes no representations as to the validity or sufficiency of the Indenture or of any Bonds, or in respect of the security afforded by the Indenture and the Trustee will incur no responsibility in respect thereof. The Trustee will be under no responsibility or duty with respect to: (i) the issuance of the Bonds for value; (ii) the application of the proceeds thereof except to the extent that such proceeds are received by it in its capacity as Trustee; or (iii) the application of any moneys paid to the Authority or others in accordance with the Indenture except as the application of any moneys paid to it in its capacity as Trustee. The Trustee will not be liable in connection with the performance of its duties under the Indenture, except for its own gross negligence or willful misconduct. The Trustee will not be liable for any action taken or omitted by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by the Indenture. The Trustee may become the Owner of Bonds with the same rights it would have if it were not Trustee, and, to the extent permitted by law, may act as depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Bond Owners, whether or not such committee will represent the Owners of a majority in aggregate principal amount of the Bonds then Outstanding.

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

(c) The Trustee will not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under the Indenture.

(d) The Trustee will not be liable for any action taken by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by the Indenture.

(e) The Trustee will not be deemed to have knowledge of any default or Event of Default under the Indenture unless and until it will have actual knowledge thereof, or will have received written notice thereof, at its Office. Except as otherwise provided in the Indenture, the Trustee will not be bound to ascertain or inquire as to the performance or observance of any of the terms, conditions, covenants or agreements in the Indenture or of any of the documents executed in connection with the Bonds, or as to the existence of an Event of Default thereunder. The Trustee will not be responsible for the validity or effectiveness of any collateral given to or held by it.

(e) 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 its right or powers. The Trustee has no obligation or liability to the Owners for the payment of interest or principal with respect to the Bonds.

(f) The Trustee will not be bound to ascertain or inquire as to the validity or genuineness of any collateral given to or held by it. The Trustee will not be responsible for the recording or filing of any document relating to the Indenture or of financing statements (or continuation statements in

connection therewith) or of any supplemental instruments or documents of further assurance as may be required by law to perfect the security interests in any collateral given or held by the Trustee in accordance with the provisions of the Indenture.

(g) The Trustee will not be concerned with or accountable to anyone for the subsequent use or application of any moneys released or withdrawn in accordance with the provisions of the Indenture.

(h) The Trustee makes no representations or warranty, express or implied as to the title, value, design, compliance with specifications or legal requirements, quality, durability, operation, condition, merchantability or fitness for any particular purpose or the use contemplated by the Authority or the District. In no event will the Trustee be liable for incidental, indirect, special or consequential damages in connection with or arising from the Indenture or the Bond Purchase Agreement.

(j) The Trustee will have no responsibility for, and makes no representations 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.

Right to Rely on Documents

The Trustee will be protected in acting upon any notice, resolution, request, consent, order, certificate, report, opinion, bonds, facsimile transmission, electronic mail, or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Trustee need not investigate any fact or matter stated in the document. The Trustee may consult with counsel, who may be Authority Bond Counsel or other counsel of or to the Authority, with regard to legal questions, and the opinion of such counsel will be full and complete authorization and protection in respect of any action taken or suffered by it under the Indenture in good faith and in accordance therewith. The Trustee will not be liable for any action it takes or omits to take in good faith in reliance on any such opinion.

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

Whenever in the administration of the trusts imposed upon it by 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 be in the Indenture specifically prescribed) may be deemed to be conclusively proved and established by a Written Certificate of the Authority, and such Written Certificate will be full warrant to the Trustee for any action taken or suffered in good faith under the provisions of the Indenture in reliance upon such Written Certificate, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as it may deem reasonable.

Preservation and Inspection of Documents

All documents received by the Trustee under the provisions of the Indenture will be retained in its possession and will be subject during business hours and upon reasonable notice to the inspection of the Authority, the District and their agents and representatives duly authorized in writing.

Compensation and Indemnification

The Authority will pay to the Trustee from time to time compensation for services rendered under the Indenture, and also all expenses, charges, legal and consulting fees and other disbursements and those of their attorney, agents, and employees, incurred in and about the performance of duties under the Indenture. To the

extent permitted by law, the Authority covenants and agrees to indemnify the Trustee against any cost, claim, loss, expense and liability arising out of or in the exercise and performance of its power and duties under the Indenture which are not due to the Trustee's negligence or willful misconduct, including the costs and expenses of defending against any claim or liability. The Trustee may have separate counsel and the Authority will pay the fees and expenses of such counsel. None of the provisions contained in the Indenture will require the Trustee to expend or risk its own funds or otherwise incur financial liability in the performance of any of its duties or in the exercise of any of its rights or powers.

Not Acting in Individual Capacity

In accepting the trusts by the Indenture created, the Trustee is acting solely as trustee under the Indenture and not in its individual capacity. The Trustee may execute any documents and perform any action indicating that it is executing such documents or performing such action as the Trustee and not in its individual capacity or words to the same effect, but failure to do so will not give rise to any presumption that the Trustee is acting or incurring liability in its individual capacity.

Force Majeure

The Trustee will not be considered in breach of or in default in its obligations under the Indenture or progress in respect thereto in the event of enforced delay ("unavoidable delay") in the performance of such obligations due to unforeseeable causes beyond its control and without its fault or negligence, including, but not limited to, Acts of God or of the public enemy or terrorists, acts of a government, acts of the other party, fires, floods, epidemics, quarantine restrictions, strikes, freight embargoes, earthquakes, explosion, mob violence, riot, inability to procure or general sabotage or rationing of labor, equipment, facilities, sources or energy, material or supplies in the open market, litigation or arbitration involving a party or others relating to zoning or other governmental action or inaction pertaining to the project, malicious mischief, condemnation, and unusually severe weather or delays of suppliers or subcontractors due to such causes or any similar event and/or occurrences beyond the control of the Trustee.

Facsimile Instructions

The Trustee agrees to accept and act upon facsimile transmission of written instructions and/or directions pursuant to the Indenture provided, however, that: (a) subsequent to such facsimile transmission of written instructions and/or directions the Trustee will forthwith receive the originally executed instructions and/or directions, (b) such originally executed instructions and/or directions will be signed by a person as may be designated and authorized to sign for the party signing such instructions and/or directions, and (c) the Trustee will have received a current incumbency certificate containing the specimen signature of such designated person.

MODIFICATION OR AMENDMENT OF THE INDENTURE

Amendments Permitted

Subject to the provisions of the Indenture summarized under the heading "Bond Insurer's Rights," the Indenture and the rights and obligations of the Authority and of the Owners of the Bonds and of the Trustee may be modified or amended from time to time and at any time by an indenture or indentures supplemental to the Indenture, which the Authority and the Trustee may enter into with the written consent of the Owners of a majority in aggregate principal amount of all Bonds then Outstanding, which will have been filed with the Trustee. No such modification or amendment will (i) extend the fixed maturity of any Bonds, or reduce the amount of principal thereof or interest thereon, or extend the time of payment, without the consent of the Owner of each Bond so affected, or (ii) reduce the aforesaid percentage of Bonds the consent of the Owners of which is required to effect any such modification or amendment, or (iii) permit the creation of any lien on the Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the

Indenture or deprive the Owners of the Bonds of the lien created by the Indenture on such Revenues and other assets (except as expressly provided in the Indenture), without the prior written consent of the Owners of all of the Bonds then Outstanding. It will not be necessary for the consent of the Bond Owners that Bond Owners approve the particular form of any supplemental indenture, but it will be sufficient if such consent will approve the substance thereof. Within thirty (30) days after the execution by the Authority and the Trustee of any supplemental Indenture pursuant to the Indenture, the Trustee will mail a notice (the form of which will be furnished to the Trustee by the Authority), by first class mail postage prepaid, setting forth in general terms the substance of such supplemental indenture, to the Owners of the Bonds at the respective addresses shown on the Registration Books. Any failure to give such notice, or any defect therein, will not, however, in any way impair or affect the validity of any such supplemental indenture.

Except as set forth in the Indenture, and subject to the provisions of the Indenture summarized under the heading “Bond Insurer’s Rights,” the Indenture and the rights and obligations of the Authority, of the Trustee and the Owners of the Bonds may also be modified or amended from time to time and at any time by an indenture or indentures supplemental to the Indenture, which the Authority and the Trustee may enter into without the consent of any Bond Owners for any one or more of the following purposes:

(a) to add to the covenants and agreements of the Authority in the Indenture other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power in the Indenture reserved to or conferred upon the Authority;

(b) 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, but only with the written consent of the Insurer;

(c) 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;

(d) to modify, amend or supplement the Indenture in such manner as to preserve the exclusion from gross income for purposes of federal income taxation by the United States of America of interest on the Bonds; and

(e) in any other respect whatsoever as the Authority may deem necessary or desirable, provided that such modification or amendment does not materially adversely affect the interests of the Bond Owners under the Indenture, in the opinion of an Independent Financial Advisor filed with the Authority and the Trustee, but only with the written consent of the Insurer.

Effect of Supplemental Indenture

Upon the execution of any supplemental indenture pursuant to the Indenture, the Indenture will be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the Authority, the Trustee, the District and all Owners of Bonds Outstanding will thereafter be determined, exercised and enforced under the Indenture subject in all respects to such modification and amendment, and all the terms and conditions of any such supplemental indenture will be deemed to be part of the terms and conditions of the Indenture for any and all purposes.

Endorsement of Bonds; Preparation of New Bonds

Bonds delivered after the execution of any supplemental indenture pursuant to the Indenture may, and if the Authority so determines will, bear a notation by endorsement or otherwise in form approved by the

Authority as to any modification or amendment provided for in such supplemental indenture, and, in that case, upon demand on the Owner of any Bonds Outstanding at the time of such execution and presentation of the Bonds for the purpose at the Office of the Trustee a suitable notation will be made on such Bonds. If the supplemental indenture will so provide, new Bonds so modified as to conform, in the opinion of the Authority and the Trustee, to any modification or amendment contained in such supplemental indenture, will be prepared and executed by the Authority and authenticated by the Trustee, and upon demand of the Owners of any Bonds then Outstanding will be exchanged at the Office of the Trustee, without cost to any Bond Owner, for Bonds then Outstanding, upon surrender for cancellation of such Bonds, in equal aggregate principal amount of the same interest rate and maturity.

Amendment of Particular Bonds

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

Notice to Rating Agencies

The Authority agrees to forward to Rating Agencies, any amendments and entered into pursuant to the Indenture.

DEFEASANCE

Discharge of Indenture

The Bonds may be paid in whole or in part by the Authority in any of the following ways, provided that the Authority also pays or causes to be paid any other sums payable under the Indenture by the Authority:

- (a) by paying or causing to be paid the principal of and interest on any or all of the Bonds, as and when the same become due and payable;
- (b) by depositing with the Trustee, in trust (pursuant to an escrow agreement), at or before maturity, money and/or Federal Securities in the necessary amount (as provided in the Indenture) to pay or redeem any or all of the Bonds then Outstanding; or
- (c) by delivering to the Trustee, for cancellation by it, any or all of the Bonds then Outstanding.

If the Authority shall also pay or cause to be paid all other sums payable under the Indenture by the Authority including without limitation any compensation due and owing the Trustee and the Bond Insurer under the Indenture, then and in that case, at the election of the Authority (evidenced by a Written Certificate of the Authority, filed with the Trustee, signifying the intention of the Authority to discharge all such indebtedness and the Indenture), and notwithstanding that any Bonds will not have been surrendered for payment, the Indenture and the pledge of Revenues and other assets made under the Indenture and all covenants, agreements and other obligations of the Authority under the Indenture will cease, terminate, become void and be completely discharged and satisfied. In such event, upon the Written Request of the Authority, and upon receipt of a Written Certificate of an Authorized Representative of the Authority and an opinion of Bond Counsel, each to the effect that all conditions precedent in the Indenture provided for relating to the discharge and satisfaction of the obligations of the Authority have been satisfied, the Trustee will cause an accounting for such period or periods as may be requested by the Authority to be prepared and filed with the Authority and will execute and deliver to the Authority all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee will pay over, transfer, assign or deliver all moneys or securities or other property held by it pursuant to the Indenture, which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption, to the Authority.

Discharge of Liability on Bonds

Upon the deposit with the Trustee, in trust, at or before maturity, of money and/or Federal Securities in the necessary amount (as provided in the Indenture) to pay or redeem any or all Outstanding Bonds (whether upon or prior to the maturity or the redemption date of such Bonds), provided that, if such Bonds are to be redeemed prior to maturity, notice of such redemption will have been given as provided in the Indenture or provision satisfactory to the Trustee will have been made for the giving of such notice, then all liability of the Authority in respect of such Bonds will cease, terminate and be completely discharged, and the Owners thereof will thereafter be entitled only to payment out of such money or securities deposited with the Trustee as aforesaid for their payment, subject, however, to the provisions of the Indenture.

The Authority may at any time surrender to the Trustee for cancellation by it any Bonds previously issued and delivered, which the Authority may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, will be deemed to be paid and retired.

Deposit of Money or Securities with Trustee

Whenever in the Indenture it is provided or permitted that there be deposited with or held in trust by the Trustee money and/or securities in the necessary amount to pay Bonds, the money or securities so to be deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to the Indenture and will be:

Lawful money of the United States of America, in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity; or

Non-callable Federal Securities the principal of, premium, if any, and interest on which when due, in the opinion or report of an independent accountant selected by the Authority, will provide money which, together with any money held pursuant to clause (a), will be sufficient to pay the principal of and all unpaid interest to maturity on the Bonds to be paid as such principal, premium and interest become due; provided, in each case, that the Trustee will have been irrevocably instructed (by the terms of the Indenture or by Written Request of the Authority) to apply such funds to the payment of such principal and interest with respect to such Bonds.

Additional Requirements of the Bond Insurer Regarding Discharge of the Indenture

Notwithstanding the other provisions of the Indenture, so long as the Bond Insurance Policy is in full force and effect and the Bond Insurer is not in default of any of its payment obligations thereunder, the obligations created by the Indenture shall not cease, terminate or become void unless there has been delivered to the Bond Insurer (i) an opinion of Bond Counsel to the effect that such discharge will not adversely impact the exclusion from gross income for federal income tax purposes of interest on the Bonds; (ii) a copy of the opinion of Bond Counsel that is described under the heading "Discharge of the Indenture;" and (iii) an escrow agreement and an opinion of counsel to the Authority regarding the validity and enforceability of the escrow agreement. Such escrow agreement shall provide that: (a) any substitution of securities shall require a verification by an independent certified public accountant and the prior written consent of the Bond Insurer; (b) the Authority will not exercise any optional prepayment with respect to the Bonds secured by the escrow agreement or any other prepayment other than mandatory sinking fund prepayment unless (i) the right to make any such prepayment has been expressly reserved in the escrow agreement and such reservation has been disclosed in detail in the respective official statement, and (ii) as a condition of any such prepayments there shall be provided to the Bond Insurer a verification of an independent certified public accountant as to the sufficiency of escrow receipts without reinvestment to meet the escrow requirements remaining following such prepayment; and (c) the Authority shall not amend the escrow agreement or enter into a forward purchase agreement or other agreement with respect to rights in the escrow without the prior written consent of the Bond Insurer.

In the event that the principal of or interest on the Bonds shall be paid by the Bond Insurer pursuant to the Bond Insurance Policy, the Bonds shall remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the Authority, and the assignment and pledge of the trust estate and all covenants, agreements and other obligations of the Authority to the Owners shall continue to exist and shall run to the benefit of Bond Insurer, and Bond Insurer shall be subrogated to the rights of such Owners including, without limitation, any rights that such Owners may have in respect of securities law violations arising from the offer and sale of the Bonds.

Payment of Bonds After Discharge of Indenture

Notwithstanding any provisions of the Indenture, any moneys held by the Trustee in trust for the payment of the principal of, or interest on, any Bonds and remaining unclaimed for two (2) years after the principal of all of the Bonds has become due and payable (whether at maturity or upon call for redemption or by acceleration as provided in the Indenture), if such moneys were so held at such date, or two (2) years after the date of deposit of such moneys if deposited after said date when all of the Bonds became due and payable, will be repaid to the Authority free from the trusts created by the Indenture upon receipt of an indemnification agreement acceptable to the Authority and the Trustee indemnifying the Trustee with respect to claims of Owners of Bonds which have not yet been paid, and all liability of the Trustee with respect to such moneys will thereupon cease; provided, however, that before the repayment of such moneys to the Authority as aforesaid, the Trustee may (at the cost of the Authority) first mail, by first class mail postage prepaid, to the Owners of Bonds which have not yet been paid, at the respective addresses shown on the Registration Books, a notice, in such form as may be deemed appropriate by the Trustee with respect to the Bonds so payable and not presented and with respect to the provisions relating to the repayment to the Authority of the moneys held for the payment thereof.

BOND INSURER AND BOND INSURANCE POLICY

Payments under the Bond Insurance Policy

At least two (2) Business Days prior to each Interest Payment Date, the Trustee shall determine whether there will be sufficient funds to pay all principal of and interest on the Bonds due on the related Interest Payment Date and shall immediately notify the Bond Insurer or its designee on the same Business Day by telephone or electronic mail, confirmed in writing by registered or certified mail, of the amount of any deficiency. Such notice shall specify the amount of the anticipated deficiency, the Bonds to which such deficiency is applicable and whether such Bonds will be deficient as to principal or interest or both. If the deficiency is made up in whole or in part prior to or on the Interest Payment Date, the Trustee shall so notify Bond Insurer or its designee.

The Trustee shall, after giving notice to the Bond Insurer as provided above, make available to the Bond Insurer the registration books of the Authority maintained by the Trustee and all records relating to the funds maintained under the Indenture.

The Trustee shall provide the Bond Insurer with a list of registered Owners entitled to receive principal or interest payments from the Bond Insurer under the terms of the Bond Insurance Policy and shall make arrangements with the Bond Insurer or another designee of the Bond Insurer to (i) mail checks or drafts to the registered Owners entitled to receive full or partial interest payments from the Bond Insurer and (ii) pay principal with respect to the Bond surrendered to the Bond Insurer or another designee of the Bond Insurer by the registered Owners of Bonds entitled to receive full or partial principal payments from the Bond Insurer.

The Trustee shall, at the time it provides notice to the Bond Insurer of any deficiency pursuant to the above, notify registered Owners entitled to receive the payment of principal or interest from the Bond Insurer (i) as to such deficiency and their entitlement to receive principal or interest, as applicable, (ii) that the Bond Insurer will remit to them all or a part of the interest payments due on the related Interest Payment Date upon

proof of its entitlement thereto and delivery to the Bond Insurer, in form satisfactory to the Bond Insurer, of an appropriate assignment of the registered Owner's right to payment, (iii) that, if they are entitled to receive partial payment of principal from the Bond Insurer, they must surrender the related Bonds for payment first to the Trustee, which will note on such Bonds the portion of the principal paid by the Trustee, and second to the Bond Insurer or its designee, together with an appropriate assignment, in form satisfactory to the Bond Insurer, to permit ownership of such Bonds to be registered in the name of the Bond Insurer, which will then pay the unpaid portion of principal, and (iv) that, if they are entitled to receive full payment of principal from the Bond Insurer, they must surrender the related Bonds for payment to the Bond Insurer or its designee, rather than the Trustee, together with an appropriate assignment, in form satisfactory to the Bond Insurer, to permit ownership of such Bonds to be registered in the name of the Bond Insurer.

In addition, if the Trustee has notice that any registered Owner has been required to disgorge payments of principal of or interest on the Bonds previously due for payment pursuant to a final non-appealable order by a court of competent jurisdiction that such payment constitutes an avoidable preference to such registered Owner within the meaning of any applicable bankruptcy laws, then the Trustee shall notify the Bond Insurer or its designee of such fact by telephone or electronic notice, confirmed in writing by registered or certified mail.

The Trustee will be irrevocably designated, appointed, directed and authorized to act as attorney-in-fact for registered Owners as follows:

(a) If and to the extent there is a deficiency in amounts required to pay interest on the Bonds, the Trustee shall (i) execute and deliver to the Bond Insurer, in form satisfactory to the Bond Insurer, an instrument appointing the Bond Insurer as agent for such registered Owners in any legal proceeding related to the payment of such interest and an assignment to the Bond Insurer of the claims for interest to which such deficiency relates and which are paid by the Bond Insurer, (ii) receive as designee of the respective registered Owners (and not as Trustee) in accordance with the tenor of the Bond Insurance Policy payment from the Bond Insurer with respect to the claims for interest so assigned, and (iii) disburse the same to such respective registered Owners; and

(b) If and to the extent of a deficiency in amounts required to pay principal of the Bonds, the Trustee shall (i) execute and deliver to the Bond Insurer, in form satisfactory to the Bond Insurer, an instrument appointing the Bond Insurer as agent for such registered Owner in any legal proceeding related to the payment of such principal and an assignment to the Bond Insurer of the Bonds surrendered to the Bond Insurer in an amount equal to the principal amount thereof as has not previously been paid or for which moneys are not held by the Trustee and available for such payment (but such assignment shall be delivered only if payment from the Bond Insurer is received), (ii) receive as designee of the respective registered Owners (and not as Trustee) in accordance with the tenor of the Bond Insurance Policy payment therefore from the Bond Insurer, and (iii) disburse the same to such registered Owners.

Payments with respect to claims for interest on and principal of Bonds disbursed by the Trustee from proceeds of the Bond Insurance Policy shall not be considered to discharge the obligation of the Authority with respect to such Bonds, and the Bond Insurer shall become the owner of such unpaid Bonds and claims for the interest in accordance with the tenor of the assignment made to it under the provisions of the Indenture.

Irrespective of whether any such assignment is executed and delivered, the Authority and the Trustee agree for the benefit of the Bond Insurer that:

(a) they recognize that, to the extent the Bond Insurer makes payments directly or indirectly (e.g., by paying through the Trustee), on account of principal of or interest on the Bonds, the Bond Insurer will be subrogated to the rights of such registered Owners to receive the amount of such principal and interest, with interest thereon as provided and solely from the sources stated in the Indenture and the Bonds; and

(b) they will accordingly pay to the Bond Insurer the amount of such principal and interest, with interest thereon as provided in the Indenture and the Bonds, but only from the sources and in the manner provided in the Indenture for the payment of principal of and interest on the Bonds to registered Owners, and will otherwise treat the Bond Insurer as the owner of such rights to the amount of such principal and interest.

The Bond Insurer shall be entitled to pay principal of or interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment (as such terms are defined in the Bond Insurance Policy) whether or not the Bond Insurer has received a Notice (as defined in the Bond Insurance Policy) of Nonpayment or a claim upon the Bond Insurance Policy.

In addition, the Bond Insurer shall, to the extent it makes any payment of principal of or interest on the Bonds become subrogated to the rights of the recipients of such payments in accordance with the terms of the Bond Insurance Policy, and to evidence such subrogation (i) in the case of claims for interest, the Trustee shall note the Bond Insurer's rights as subrogee on the registration books of the Authority maintained by the Trustee, upon receipt of proof of payment of interest thereon to the registered Owners, and (ii) in the case of claims for principal, the Trustee shall note the Bond Insurer's rights as subrogee on the registration books of the Authority maintained by the Trustee, upon surrender of the Bonds together with receipt of proof of payment of principal thereof.

Reimbursement Obligations

The Authority agrees to pay or reimburse the Bond Insurer from amounts pledged under the Indenture (a) all amounts paid by the Bond Insurer under the terms of the Bond Insurance Policy, and (b) to the extent permitted by law, any and all charges, fees, costs and expenses which the Bond Insurer may reasonably pay or incur, including, but not limited to, fees and expenses of attorneys, accountants, consultants and auditors and reasonable costs of investigations, in connection with (i) any accounts established to facilitate payments under the Bond Insurance Policy, (ii) the administration, enforcement, defense or preservation of any rights in respect to the Indenture, the Resolutions of Issuance, the Improvement District Bonds and any other documentation for the Bonds (collectively, the "Financing Documents"), including defending, monitoring or participating in any litigation or proceeding (including any bankruptcy proceeding in respect of the Authority or the District or any affiliate thereof) relating to the Indenture or any other Financing Document, any party to the Indenture or any other Financing Document or the transactions contemplated by the Indenture or any other Financing Documents, (iii) the foreclosure against, sale or other disposition of any collateral securing any obligations under the Indenture or any other Financing Document, or the pursuit of any remedies under the Indenture or any other Financing Document, to the extent such costs and expenses are not recovered from such foreclosure, sale or other disposition, or (iv) any amendment, waiver or other action with respect to, or related to, the Indenture or any other Financing Document whether or not executed or completed; costs and expenses shall include a reasonable allocation of compensation and overhead attributable to time of employees of the Bond Insurer spent in connection with the actions described in clauses (ii) - (iv) above. In addition, the Bond Insurer reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver or consent proposed in respect of the Indenture or any other Financing Document. The Authority will pay interest on the amounts owed in the paragraph from the date of any payment due or paid, at the per annum rate of interest publicly announced from time to time by JPMorgan Chase Bank, National Association at its principal office in New York, New York as its prime lending rate (any change in such prime rate of interest to be effective on the date such change is announced by JPMorgan Chase Bank, National Association) plus three percent (3%) per annum (the "Reimbursement Rate"). The Reimbursement Rate shall be calculated on the basis of the actual number of days elapsed over a 360-day year. In the event JPMorgan Chase Bank ceases to announce its prime rate publicly, the prime rate shall be the publicly announced prime rate or base lending rate of such national bank, as the Bond Insurer shall specify.

In addition to any and all rights of reimbursement, subrogation and any other rights pursuant to the Indenture or under law or in equity, the Authority agrees to pay or reimburse the Bond Insurer from amounts pledged under the Indenture, to the extent permitted by law, any and all charges, fees, costs, claims, losses,

liabilities (including penalties), judgments, demands, damages, and expenses which the Bond Insurer or its officers, directors, shareholders, employees, agents and each Person, if any, who controls the Bond Insurer within the meaning of either Section 15 of the Securities Act of 1933, as amended, or Section 20 of the Securities Exchange Act of 1934, as amended, may reasonably pay or incur, including, but not limited to, fees and expenses of attorneys, accountants, consultants and auditors and reasonable costs of investigations, of any nature in connection with, in respect of or relating to the transactions contemplated by the Indenture or any other Financing Document by reason of:

(a) any omission or action (other than of or by the Bond Insurer) in connection with the offering, issuance, sale, remarketing or delivery of the Bonds;

(b) the negligence, bad faith, willful misconduct, misfeasance, malfeasance or theft committed by any director, officer, employee or agent of the Authority or the District in connection with any transaction arising from or relating to the Indenture or any other Financing Document;

(c) the violation by the Authority or the District of any law, rule or regulation, or any judgment, order or decree applicable to it;

(d) the breach by the Authority of any representation, warranty or covenant under the Indenture or any other Financing Document or the occurrence, in respect of the District or the Authority under the Indenture or any other Financing Document of any “event of default” or any event which, with the giving of notice or lapse of time or both, would constitute any “event of default”; or

(e) any untrue statement or alleged untrue statement of a material fact contained in any official statement relating to the Bonds, if any, or any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, except insofar as such claims arise out of or are based upon any untrue statement or omission in information included in an official statement, if any, and furnished by the Bond Insurer in writing expressly for use therein.

Bond Insurer’s Rights

So long as the Bond Insurance Policy is in full force and effect and the Bond Insurer is not in default on any of its payment obligations thereunder, the following provisions shall apply:

Upon the occurrence and continuance of an Event of Default, the Bond Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the Owners or the Trustee for the benefit of the Owners under the Indenture; and in determining whether an Event of Default has occurred in the due and punctual payment of any principal of or interest on any Bond, no effect shall be given to payments made under the Bond Insurance Policy.

The Bond Insurer shall receive prior written notice of any name change of the Trustee or the removal or resignation of the Trustee. No removal or resignation of the Trustee shall take effect until a successor, acceptable to the Bond Insurer, shall be appointed. The Trustee may be removed at any time, at the request of the Bond Insurer, for any breach of its obligations under the Financing Documents. Notwithstanding any other provision of the Financing Document, in determining whether the rights of Owners will be adversely affected by any action taken pursuant to the terms and provisions thereof, the Trustee shall consider the effect on the Owners as if there were no Bond Insurance Policy.

No amendment permitted pursuant to the summarized under the heading “Amendments Permitted” shall be permitted without the prior written consent of the Bond Insurer.

The Bond Insurer shall be given not less than ten Business Days prior written notice of any proposed amendment permitted pursuant to the second paragraph of summarized under the heading “Amendments Permitted.”

The Bond Insurer shall be deemed to be the Owner of all of the Bonds for purposes of (a) exercising all remedies and directing the Trustee to take actions or for any other purposes following an Event of Default, and (b) granting any consent, waiver, direction or approval or taking any action permitted by or required under the indenture to be granted or taken by the Owners.

No provision of the Indenture expressly recognizing or granting rights in or to the Bond Insurer may be amended in any manner that affects the rights of the Bond Insurer under the Indenture without the prior written consent of the Bond Insurer.

When the Indenture requires the consent of all of the Owners as a condition to any action of any kind, the written consent of the Bond Insurer shall also be required.

Any reorganization or liquidation plan with respect to the Authority must be acceptable to the Bond Insurer. In the event of any such reorganization or liquidation, the Bond Insurer shall have the right to vote on behalf of all Owners.

Anything in the Indenture to the contrary notwithstanding, upon the occurrence and continuance of an Event of Default, the Bond Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the Owners or the Trustee for the benefit of the Owners under the Indenture.

The Bond Insurer is explicitly recognized as being a third party beneficiary under the Indenture and may enforce any right, remedy or claim conferred, given or granted to it under the Indenture.

Any notice that is required to be given to Owners, to the Municipal Securities Rulemaking Board pursuant to Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission, or to the Trustee pursuant to the Indenture shall also be provided to the Bond Insurer, simultaneously with the sending of such notices. In addition, to the extent that the Authority or District has entered into a continuing disclosure agreement with respect to the Bonds, all information furnished pursuant to such agreement shall also be provided to the Bond Insurer, simultaneously with the furnishing of such information.

The Authority and the District will permit the Bond Insurer to discuss with their respective officers their respective affairs, finances and accounts and any information that the Bond Insurer may reasonably request regarding the security for the Bonds and will use commercially reasonable methods to enable the Bond Insurer to have access to their respective facilities, books and records on any Business Day upon reasonable prior notice.

The Bond Insurer shall have the right to receive any information concerning the Authority and the District, their respective affairs, finances and accounts and the security for the Bonds as the Bond Insurer may reasonably request.

Promptly after having acquired actual knowledge thereof, the Trustee shall notify the Bond Insurer of any failure of the Authority or the District to provide any notice, certificate or other information required to be provided by either of them pursuant to the Financing Documents (as such term is defined in the Indenture).

Without the prior written consent of the Bond Insurer, no Bonds insured by the Bond Insurer may be purchased by the District, or any of its affiliates, in lieu of redemption unless such Bonds are redeemed, defeased or cancelled.

MISCELLANEOUS

Liability of Authority Limited to Revenues

Notwithstanding anything in the Indenture or in the Bonds contained, neither the Authority nor any member thereof will be required to advance any moneys derived from any source other than the Revenues and other assets pledged under the Indenture for any of the purposes in the Indenture mentioned, whether for the payment of the principal of or interest on the Bonds or for any other purpose of the Indenture. Nevertheless, the Authority may, but will not be required to, advance for any of the purposes of the Indenture any funds of the Authority which may be made available to it for such purposes.

Successor Is Deemed Included in All References to Predecessor

Whenever in the Indenture either the Authority or the Trustee is named or referred to, such reference will be deemed to include the successors or assigns thereof, and all the covenants and agreements in the Indenture contained by or on behalf of the Authority or the Trustee will bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

Limitation of Rights to Parties and Bond Owners

Nothing in the Indenture or in the Bonds expressed or implied is intended or will be construed upon, or to give or grant to, any Person or entity, other than the Authority, the Trustee, the Bond Insurer, the District and the Owners of the Bonds, any legal or equitable right, remedy or claim under or in respect of the Indenture or any covenant, condition or provision therein or in the Indenture contained; and all such covenants, conditions and provisions are and will be held to be for the sole and exclusive benefit of the Authority, the Trustee, the District and the Owners of the Bonds.

Waiver of Notice; Requirement of Mailed Notice

Whenever in the Indenture the giving of notice by mail or otherwise is required, the giving of such notice may be waived in writing by the Person entitled to receive such notice and in any such case the giving or receipt of such notice will not be a condition precedent to the validity of any action taken in reliance upon such waiver. Whenever in the Indenture any notice will be required to be given by mail, such requirement will be satisfied by the deposit of such notice in the United States mail, postage prepaid, by first class mail.

Destruction of Bonds

Whenever in the Indenture provision is made for the cancellation by the Trustee and the delivery to the Authority of any Bonds, the Trustee may, upon the Written Request of the Authority, in lieu of such cancellation and delivery, destroy such Bonds (in the presence of an officer of the Authority, if the Authority will so require) as may be allowed by law, and deliver a certificate of such destruction to the Authority if so requested.

Severability of Invalid Provisions

If any one or more of the provisions contained in the Indenture or in the Bonds will for any reason be held to be invalid, illegal or unenforceable in any respect, then such provision or provisions will be deemed severable from the remaining provisions contained in the Indenture and such invalidity, illegality or unenforceability will not affect any other provision of the Indenture, and the Indenture will be construed as if such invalid or illegal or unenforceable provision had never been contained in the Indenture. The Authority by the Indenture declares that it would have entered into the Indenture and each and every other section, paragraph, sentence, clause or phrase of the Indenture and authorized the issuance of the Bonds pursuant

thereto irrespective of the fact that any one or more sections, paragraphs, sentences, clauses or phrases of the Indenture may be held illegal, invalid or unenforceable.

Evidence of Rights of Bond Owners

Any request, consent or other instrument required or permitted by the Indenture to be signed and executed by Bond Owners may be in any number of concurrent instruments of substantially similar tenor and will be signed or executed by such Bond Owners in person or by an agent or agent duly appointed in writing. Proof of the execution of any such request, consent or other instrument or of a writing appointing any such agent, or of the holding by any person of Bonds transferable by delivery, will be sufficient for any purpose of the Indenture and will be conclusive in favor of the Trustee and the Authority if made in the manner provided in the Indenture.

The fact and date of the execution by any Person of any such request, consent or other instrument or writing may be proved by the certificate of any notary public or other officer of any jurisdiction, authorized by the laws thereof to take acknowledgments of deeds, certifying that the Person signing such request, consent or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer.

The ownership of registered Bonds will be proved by the Registration Books.

Any request, consent, or other instrument or writing of the Owner of any Bond will bind every future Owner of the same Bond and the Owner of every Bond issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Trustee or the Authority in accordance therewith or reliance thereon.

Disqualified Bonds

In determining whether the Owners of the requisite aggregate principal amount of Bonds have concurred in any demand, request, direction, consent or waiver under the Indenture, Bonds which are known by the Trustee to be owned or held by or for the account of the Authority or the District, or by any other obligor on the Bonds, or by any Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Authority or the District or any other obligor on the Bonds, will be disregarded and deemed not to be Outstanding for the purpose of any such determination. Bonds so owned which have been pledged in good faith may be regarded as Outstanding for the purposes of the Indenture if the pledgee will establish to the satisfaction of the Trustee the pledgee's right to vote such Bonds and that the pledgee is not a Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Authority or the District or any other obligor on the Bonds. In case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel will be full protection to the Trustee.

Money Held for Particular Bonds

The money held by the Trustee for the payment of the interest and principal 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 of the Bonds entitled thereto, subject, however, to the provisions of the Indenture, but without any liability for interest thereon.

Funds and Accounts

Any fund or account required by the Indenture to be established and maintained by the Trustee may be established and maintained in the accounting records of the Trustee, either as a fund or an account, and may, for the purposes of such records, any audits thereof and any reports or statements with respect thereto, be treated either as a fund or as an account; but all such records with respect to all such funds and accounts will at

all times be maintained in accordance with corporate trust standards to the extent practicable, and with due regard for the requirements of the Indenture and for the protection of the security of the Bonds and the rights of every Owner thereof.

Payment on Non-Business Days

In the event any payment is required to be made under the Indenture on a day which is not a Business Day, such payment will be made on the next succeeding Business Day and no interest will accrue from and after such day that is not a Business Day.

Waiver of Personal Liability

No member, officer, agent or employee of the Authority will be individually or personally liable for the payment of the principal of or premium or interest on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof; but nothing in the Indenture contained will relieve any such member, officer, agent or employee from the performance of any official duty provided by law or by the Indenture.

Governing Laws

The Indenture will be governed by and construed in accordance with the laws of the State of California.

SUMMARY OF IMPROVEMENT DISTRICT RESOLUTION

The Improvement District Bonds will be issued pursuant to twenty separate Improvement District Resolutions substantially in the form summarized below. Each Improvement District Bond is a general obligation bond of the District on behalf of a particular Improvement District and is payable from ad valorem taxes levied only upon taxable property within that particular Improvement District.

Authorization of Improvement District Bonds, Denominations, Maturities and Payments

The Board of Directors authorized, pursuant to the authority and for the purpose set forth in the recitals of the Improvement District Resolution, the sale and issuance of Improvement District Bonds as set forth in the Improvement District Resolution to finance facilities for the District's Improvement District No. __. The Improvement District Bonds will be designated "Election 19__, Series __, General Obligation Improvement District Bonds for Improvement District No. __" (the "Improvement District Bonds") and will be sold to the Authority at a price equal to the same percentage of the principal amount thereof at which the Bonds are sold to the Underwriter. The Improvement District Bonds will be issued in the form of fully registered Improvement District Bonds in the denomination of \$5,000 each or any whole multiple thereof, will be dated the date of issuance thereof (the "Dated Date") and will mature on September 1 in the amounts for each of the years and at the interest rates designated by the Underwriter and approved in writing by the General Manager of the District and/or the Chief Financial Officer of the District.

The Improvement District Bonds will bear interest from the Dated Date payable semiannually on each March 1 and September 1, commencing March 1, 2010 (each an "Interest Payment Date"). Each Improvement District Bond will bear interest until its principal amount has been paid; provided, however, that if funds are held in trust by the Paying Agent, hereinafter designated, for the payment thereof in full in accordance with the terms of the applicable Improvement District Resolution, such Improvement District Bond will then cease to bear interest.

Place of Payment

The principal on the Improvement District Bonds will be payable in lawful money of the United States of America and will be payable at the corporate trust office of U.S. Bank National Association (the “Paying Agent”), in Los Angeles, California, upon the presentation of the Bonds provided that if the Improvement District Bonds are owned by the Authority, the Paying Agent will pay all principal and interest payments received from the District for the payment of the Improvement District Bonds to the Trustee. The interest on each will be paid by check mailed to the registered owner of such Improvement District Bond as of the applicable Record Date (unless the Bonds are owned by the Authority).

Call, Redemption, and Redemption Fund

(a) Optional Redemption. The Improvement District Bonds will be subject to call and redemption prior to maturity at the same time and on the same terms as the Bonds.

If less than all the Improvement District Bonds are to be redeemed at one time, the Improvement District Bonds subject to optional redemption will be selected by the District as proportionally as possible.

(b) Mandatory Sinking Fund Redemption. The Improvement District Bonds are subject to mandatory sinking fund redemption at a redemption price equal to the principal amount to be redeemed, without premium, plus accrued interest to the date of redemption as designated by the Underwriter and approved in writing by the General Manager of the District or the Chief Financial Officer of the District.

(c) Notice. Notice of redemption prior to maturity will be given by first-class mailing, postage prepaid not less than thirty (30) nor more than sixty (60) days prior to the redemption date, (i) to the Authority, or if the Improvement District Bonds to be redeemed are not owned by the Authority then to the registered owner of each such Bond at the address shown on the registration books of the Paying Agent and (ii) to the Securities Depositories as defined in the Indenture. Neither the failure to mail the notice nor any defect in any notice mailed will affect the sufficiency of the proceedings for the redemption of any Improvement District Bonds. The notice of redemption will (a) state the redemption date; (b) state the redemption price; (c) state the numbers of the Improvement District Bonds to be redeemed; provided, however, that whenever any call for redemption includes all of the outstanding Improvement District Bonds, the numbers of the Improvement District Bonds need not be stated; (d) state, as to any Improvement District Bonds redeemed in part only, the registered bond numbers and the principal portion thereof to be redeemed; (e) state that interest on the principal portion of the Improvement District Bonds designated for redemption will cease to accrue from and after the redemption date and that on the redemption date there will become due and payable on each of such Improvement District Bonds the redemption price for each Bond; and (f) state that the redemption of the Improvement District Bonds is subject to there being on deposit with the Paying Agent on the redemption date, moneys sufficient to redeem the portion of the Improvement District Bonds as set forth in the notice.

The actual receipt by the owner of any Bond of notice of redemption will not be a condition precedent to redemption, and failure to receive notice will not affect the validity of the proceedings for the redemption of the Improvement District Bonds or the cessation of interest on the redemption date.

(d) Redemption Fund. In the event of redemption of the Improvement District Bonds prior to their stated maturities as provide in the Improvement District Resolution, the Paying Agent will establish, maintain and hold in trust a separate fund which is created for the purpose of the Improvement District Resolution entitled, “Redemption Fund for Election 19 __, Series __, for Improvement District No. __” (the “Redemption Fund”). The District will pay to the Paying Agent moneys for the purpose of and sufficient to redeem, at the premiums, if any, payable as provided in the Improvement District Resolution, the Improvement District Bonds designated in the notice of redemption. The moneys set aside in the Redemption Fund for the redemption of the Improvement District Bonds will be paid to the Trustee, by 10:00 a.m. on the date of the

redemption if the Improvement District Bonds to be redeemed are held by the Authority, or to the registered owner thereof, to be applied on or after the redemption date to the payment (principal and premium,

Construction Fund

The District will continue to hold in trust the “Construction Fund for Improvement District No. ___” (the “Construction Fund”).

Within the Construction Fund, the District will continue to maintain the Costs of Issuance Account. On the Closing Date the District will deposit in the Costs of Issuance Account such portion of the proceeds of the sale of the Improvement District Bonds as may be directed by the General Manager of the District or the Chief Financial Officer of the District. Money in the Costs of Issuance Account will be used to pay the Costs of Issuance of the Improvement District Bonds and that proportionate share of the Costs of Issuance of the Bonds attributable to the Improvement District Bonds. “Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the District and/or to the Authority in connection with the issuance and sale of the Improvement District Bonds and the Bonds, including administrative fees, printing costs, reproduction and binding costs, initial fees and charges of the Paying Agent and the Trustee (including legal fees), legal fees and charges, insurance and surety premiums, as applicable, cost of safekeeping of the Improvement District Bonds and the Bonds, fees and charges of financial consultants and other professional fees and expenses in connection with the original sale, execution and delivery of the Improvement District Bonds and the Bonds.

Money in the accounts in the Construction Fund (including the Costs of Issuance Account after all Costs of Issuance have been paid) will be used to pay (A) the cost of acquiring, constructing and improving any facility set forth in the Plan of Works for Improvement District No. __, as amended or as may be amended in the future, (B) any payments that may be due to the federal government with respect to the Bonds or the Improvement District Bonds, and (C) debt service on the Improvement District Bonds.

Disposition of Proceeds of Improvement District Bonds

The proceeds of the sale of the Improvement District Bonds will be received by the District, which will (i) deposit in the Costs of Issuance Account of the Construction Fund the amount specified by the District and (ii) deposit in the Construction Fund the remaining balance.

Bond Fund, Bond Payment Fund, Security for the Improvement District Bonds

The District will continue to hold in trust the “Bond Fund for Improvement District No. ___” (the “Bond Fund”). The Improvement District Bonds and the interest thereon will be paid from moneys received from annual ad valorem taxes to be levied and collected only from the property within Improvement District No. __, except to the extent that provision has otherwise been made by the Board, and all property in Improvement District No. __ will be and remain liable to be taxed for the payment of the principal of and interest on the Improvement District Bonds. The District covenants that it will levy ad valorem taxes without limit as to rate or amount, on property (but only property within the boundaries of Improvement District No. __), to the extent it does not have available money, in amounts sufficient and at the times necessary to provide money for the payment of the principal and interest on the Improvement District Bonds as the same become due. As additional security for the repayment of the Improvement District Bonds, the District has covenanted in the Improvement District Resolution that in the event that sufficient funds are not available to pay principal of and interest on the Improvement District Bonds based upon a delinquency of ad valorem taxes, the District shall pay the principal of and interest on the Improvement District Bonds from any legally available money of the Water District (including cash reserves and money available after the payment of maintenance and operation expenses and the payment of any debt service). Moneys received by the District for the purpose of paying the principal and interest on the Improvement District Bonds will be paid to the Paying Agent not less than five (5) Business Days prior to each Interest Payment Date, and the Paying Agent will transfer such funds

received from the District in the Bond Payment Fund to the Trustee not less than two (2) Business Days prior to each Interest Payment Date as payment of the interest on and principal of the Improvement District Bonds, as the case may be, the amount coming due on such Interest Payment Date. A “Business Day” means a day which is not a Saturday, Sunday or a day on which banking institutions in the State of California, or in any state in which the Office of the Trustee is located, are authorized or required to be closed.

Defeasance

Subsequent to the payment of all amounts owed to the insurer of the Bonds, if any, under the terms of any policy or surety Improvement District Bond pertaining thereto, if the District will pay and discharge the indebtedness on all or any portion of the Improvement District Bonds outstanding in any one or more of the following ways:

(a) by well and truly paying or causing to be paid the principal of (including redemption premiums, if any) and interest on all or any portion of the Improvement District Bonds outstanding, as and when the same become due and payable; or

(b) by depositing with the Paying Agent, in trust, at or before maturity, money which, together with the amounts then on deposit in the Bond Payment Fund, is fully sufficient to pay or redeem any portion of the Improvement District Bonds outstanding, including all principal, interest and redemption premiums, if any; or

(c) by delivering to the Paying Agent, for cancellation by it, all or any portion of the Improvement District Bonds outstanding; or

(d) by depositing with the Paying Agent, in trust, Federal Securities in such amount as an independent certified public accountant will determine will, together with the income or interest to accrue thereon and any other moneys of the District made available for such purpose, be fully sufficient to pay and discharge the indebtedness on all or any portion of the Improvement District Bonds (including all principal, interest and redemption premiums) at or before their respective maturity dates;

(e) and if the District will also pay or cause to be paid all other sums payable under the Improvement District Resolution by the District, then and in that case, at the election of the District (evidenced by a Improvement District Resolution of the District signifying its intention to pay and discharge all such indebtedness, and that all obligations of the District under the Improvement District Resolution will cease and terminate, which will be filed with the Paying Agent), and notwithstanding that any Improvement District Bonds will not have been surrendered for payment, all obligations of the District under the Improvement District Resolution relating to the Improvement District Bonds to be paid will cease, terminate and be completely discharged, and the owners of the Improvement District Bonds not so surrendered and paid will thereafter be entitled to payment only out of the money or Federal Securities deposited with the Paying Agent.

The District may at any time surrender to the Paying Agent for cancellation by it any Improvement District Bonds previously issued and delivered, which the District may have acquired in any manner whatsoever; and such Improvement District Bonds, upon such surrender and cancellation, will be deemed to be paid and retired.

Tax Covenants Relating to the Improvement District Bonds and the Bonds

Notwithstanding any other provision of the Improvement District Resolution, absent an opinion of Improvement District Bond Counsel that the exclusion from gross income of interest with respect to the Bonds will not be adversely affected for federal income tax purposes, the District covenants to comply with all applicable requirements of the Internal Revenue Code of 1986, as amended (the “Tax Code”) necessary to

preserve such exclusion from gross income and specifically covenants, without limiting the generality of the foregoing, as follows:

(a) Private Business Use. The District will assure that the proceeds of the Bonds (and the Improvement District Bonds) are not used in a manner which would cause the Bonds to be “private activity Improvement District Bonds” within the meaning of Section 141 of the Tax Code. The District will not allow any of the proceeds of the Bonds (or the Improvement District Bonds), or any refinanced obligations, or any of the facilities financed with such obligations, to be used in the trade or business of any non-governmental persons (other than in their roles as members of the general public) and will not loan any of the proceeds of the Bonds (or the Improvement District Bonds), or any refinanced obligations, to any non-governmental persons. Further, the District will not voluntarily sell (nor voluntarily permit the sale) to any non-governmental persons (or otherwise permit the privatization of) the facilities financed by the Bonds (or the Improvement District Bonds) and the obligations refinanced by the Bonds (or the Improvement District Bonds);

(b) Arbitrage. The District will not make any use of the proceeds of the Bonds (or the Improvement District Bonds) or of any other amounts or property, regardless of the sources, or take or omit to take any action which would cause the Bonds to be “arbitrage Improvement District Bonds” within the meaning of Section 148 of the Tax Code; the District will take all necessary action to ensure that any rebatable arbitrage with respect to the Bonds is calculated and paid in a timely manner in accordance with the Indenture and the Tax Certificate;

(c) Federal Guarantee. The District will not make any use of the proceeds of the Bonds (or the Improvement District Bonds) or take or omit to take any action that would cause the Bonds to be “federally guaranteed” within the meaning of Section 149(b) of the Tax Code;

(d) Information Reporting. The District will take or cause to be taken all necessary action to comply with the information reporting requirements of Section 149(e) of the Tax Code;

(e) Hedge Improvement District Bonds. The District will not make any use of the proceeds of the Bonds (or the Improvement District Bonds) or any other amounts or property, regardless of the source, or take or omit to take any action that would cause the Bonds to be considered “Hedge Improvement District Bonds” within the meaning of Section 149(g) of the Tax Code unless the District takes all necessary action to assure compliance with the requirements of Section 149(g) of the Tax Code to maintain the exclusion from gross income of interest on the Bonds for federal income tax purposes; and

(e) Miscellaneous. The District will not take any action inconsistent with its expectations stated in that certain Tax Certificate to be executed on the Closing Date by the District in connection with the issuance of the Bonds and will comply with the covenants and requirements stated therein and incorporated by reference in the Improvement District Resolution.

These covenants stated in the Improvement District Resolution will survive the defeasance of the Improvement District Bonds.

Rebate Fund

The District will create a special fund to be designated “Rebate Fund for Election 19__, Series __, for Improvement District No. __” (the “Rebate Fund”), and the District will comply with the requirements below. All money at any time deposited in the Rebate Fund will be held by the District for payment to the United States Treasury. All amounts on deposit in the Rebate Fund will be governed by the Improvement District Resolution and the applicable Tax Certificate, unless the District obtains an opinion of Improvement District Bond Counsel that the exclusion from gross income of interest on the Improvement District Bonds will not be adversely affected for federal income tax purposes if such requirements are not satisfied.

Excess Investment Earnings

(a) Annual Computation. Within 55 days of the end of each Improvement District Bonds Year (as defined in the Tax Certificate) with respect to the Improvement District Bonds, the District will calculate or cause to be calculated the amount of rebatable arbitrage, in accordance with Section 148(f)(2) of the Tax Code and Section 1.148-3 of the Rebate Regulations (taking into account any applicable exceptions with respect to the computation of the rebatable arbitrage, described, if applicable, in the Tax Certificate (e.g., the temporary investments exceptions of Section 148(f)(4)(B) and (C) of the Code), for this purpose treating the last day of the applicable Improvement District Bond Year as a computation date, within the meaning of Section 1.148-1(b) of the Treasury Regulations (the “Rebatable Arbitrage”). The District will obtain expert advice as to the amount of the Rebatable Arbitrage to comply with the Improvement District Resolution.

(b) Annual Transfer. Within 55 days of the end of each applicable Improvement District Bond Year with respect to the Improvement District Bonds, upon the District’s written direction, an amount will be deposited to the Rebate Fund by the District from any legally available funds furnished by the District, including the other funds and accounts established in the Improvement District Resolution, so that the balance in the Rebate Fund will equal the amount of Rebatable Arbitrage so calculated in accordance the Improvement Resolution. In the event that immediately following the transfer required by the previous sentence, the amount then on deposit to the credit of the Rebate Fund exceeds the amount required to be on deposit therein, the District will withdraw the excess from the Rebate Fund and then credit the excess to the Surplus Account.

(c) Payment to the Treasury. The District will pay to the United States Treasury, out of amounts in the Rebate Fund.

- (X) Not later than 60 days after the end of (A) the fifth Improvement District Bond Year with respect to the Improvement District Bonds, and (B) each applicable fifth Improvement District Bond Year thereafter, an amount equal to at least 90% of the Rebatable Arbitrage calculated as of the end of such Computation Year; and
- (Y) Not later than 60 days after the payment of all the Improvement District Bonds, an amount equal to 100% of the Rebatable Arbitrage calculated as of the end of such applicable Computation Year, and any income attributable to the Rebatable Arbitrage, computed in accordance with Section 148(f) of the Tax Code.

In the event that, prior to the time of any payment required to be made from the Rebate Fund, the amount in the Rebate Fund is not sufficient to make such payment when such payment is due, the District will calculate or cause to be calculated the amount of such deficiency and deposit an amount received from any legally available source, including the other funds and accounts established in the Improvement District Resolution, equal to such deficiency in the Rebate Fund prior to the time such payment is due. Each payment required to be made pursuant to the Improvement District Resolution will be made to the Internal Revenue Service Center, Ogden, Utah on or before the date on which such payment is due, and will be accompanied by Internal Revenue Service Form 8038-T, or will be made in such other manner as provided under the Tax Code.

Survival of Defeasance. Notwithstanding anything in the Improvement District Resolution to the contrary, the obligation to comply with the requirements of the Improvement District Resolution will survive the defeasance of the Improvement District Bonds and any Parity Improvement District Bonds.

Investment of Funds

Except as otherwise provided in the Improvement District Resolution, all moneys in the Bond Payment Fund will be invested by the Paying Agent in investments authorized pursuant to the laws of the State

of California for the investment of District money (herein "Permitted Investments"), as directed in writing by the District at least two (2) Business Days prior to the making of such investment, provided, however, that, if the District does not file such a request with the Paying Agent, the Paying Agent will, to the extent practicable, invest in Permitted Investments, in whatever investment it uses for overnight investments. Permitted Investments may be purchased at such prices as the District will determine. All Permitted Investments will be acquired subject to any restrictive instructions given to the Paying Agent pursuant to the Improvement District Resolution and such additional limitations or requirements consistent with the foregoing as may be established by the written request of the District.

The Paying Agent may act as principal or agent in the making or disposing of any investment. Upon the written request of the District, the Paying Agent will sell or present for redemption, any Permitted Investments so purchased whenever it will be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund to which such Permitted Investments are credited, and the Paying Agent will not be liable or responsible for any loss resulting from any investment made or sold pursuant to the Improvement District Resolution. For purposes of investment, the Paying Agent may commingle moneys in any of the funds and accounts established under the Improvement District Resolution.

Moneys in the Bond Payment Fund will be invested and reinvested in Permitted Investments that mature by their terms prior to the date on which such invested amounts, together with other moneys held in such fund and available for such purpose, are required to be paid in respect of principal of or interest on the Improvement District Bonds on any payment date.

Obligations purchased as an investment of moneys in any of the funds or accounts will be deemed at all times to be a part of such respective fund or account and, except as specifically otherwise provided, the interest accruing thereon and any gain realized from an investment will be credited to such fund or account and any loss resulting from any authorized investment will be charged to such fund or account without liability to the District or the members and officers thereof. The investment constituting a part of the fund or account will be valued at the lower of cost or the then estimated or appraised market value of the investment, provided, however, that investments in the Bond Payment Fund will be valued at the cost thereof.

The District acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the District the right to receive the brokerage confirmations of security transactions as they occur, the District specifically waives receipt of such confirmations to the extent permitted by law. The Paying Agent will furnish the District with periodic cash transaction statements which include detail for all investment transactions made by the Paying Agent under the Improvement District Resolution. The Paying Agent may make any investments under the Improvement District Resolution through its own Improvement District Bond or investment department or trust investment department, or those of its parent or any affiliate. The Paying Agent or any of its affiliates may act as sponsor, advisor or manager in connection with any investments made by the Paying Agent under the Improvement District Resolution.

The Paying Agent and Trustee

U.S. Bank National Association is appointed Paying Agent for the District for the purpose of receiving all moneys which the District is required to deposit with the Paying Agent under the Improvement District Resolution and to allocate, use and apply the same as provided in the Improvement District Resolution. The District agrees that it will maintain a Paying Agent having a corporate trust office in Los Angeles, California, so long as any Improvement District Bonds are Outstanding.

The District may at any time remove the Paying Agent initially appointed, and any successor thereto, and may appoint a successor or successors thereto; provided that any such successor will be a bank or trust company having (or will be included in a bank holding company system having) a combined capital and surplus of at least seventy-five million dollars (\$75,000,000), and that is being subject to supervision or examination by federal or state authority. If such bank or trust company (or bank holding company, as the case

may be) publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of the Improvement District Resolution the combined capital and surplus of such bank or trust company will be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

The Paying Agent may at any time resign by giving written notice to the District and by giving to the Improvement District Bond Owners notice by mail of such resignation. Upon receiving such notice of resignation, the District may promptly appoint a successor Paying Agent by an instrument in writing. Any resignation or removal of the Paying Agent and appointment of a successor Paying Agent will become effective only upon acceptance of appointment by the successor Paying Agent.

The Paying Agent is authorized to pay the interest on the Improvement District Bonds and to redeem the Improvement District Bonds when duly presented for payment at maturity, or on redemption prior to maturity, and to cancel all Improvement District Bonds upon payment thereof and return the same so cancelled to the District.

The recitals of facts, covenants and agreements in the Improvement District Resolution and in the Improvement District Bonds contained will be taken as statements, covenants and agreements of the District, and the Paying Agent does not assume any responsibility for the correctness of the same or make any representation as to the validity or sufficiency of the Improvement District Resolution or of the Improvement District Bonds. Nor will the Paying Agent incur any responsibility in respect thereof, other than in connection with the duties or obligations in the Improvement District Resolution or in the Improvement District Bonds assigned to or imposed upon it. The Paying Agent will not be liable in connection with the performance of its duties under the Improvement District Resolution, except for its own negligence or willful misconduct.

The Paying Agent will be protected in acting upon any notice, Improvement District Resolution, request, consent, order, certificate, report, Improvement District Bond or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Paying Agent may consult with counsel, who may be counsel to the District, with regard to legal questions, and the opinion of such counsel will be full and complete authorization and protection in respect of any action taken or suffered under the Improvement District Resolution in good faith and in accordance therewith.

The Paying Agent will not be bound to recognize any person as the Improvement District Bond Owner unless and until such Improvement District Bond is submitted for inspection, if required, and his title thereto satisfactorily established, if disputed.

Whenever in the administration of its duties under the Improvement District Resolution the Paying Agent will deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Improvement District Resolution, such matter (unless other evidence in respect thereof be in the Improvement District Resolution specifically prescribed) may, in the absence of bad faith on the part of the Paying Agent, be deemed to be conclusively proved and established by a Certificate of the District and such Written Certificate will be full warrant to the Paying Agent for any action taken or suffered under the provisions of the Improvement District Resolution upon the faith thereof, but in its discretion the Paying Agent may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

The Paying Agent undertakes to perform such duties, and only such duties, as are specifically set forth in the Improvement District Resolution, and no implied covenants or obligations will be read into the Improvement District Resolution against the Paying Agent.

Any company into which the Paying Agent may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it will be a party or any company to which the Paying Agent may sell or transfer all or substantially all of its corporate

trust business, provided such company will be eligible under the following paragraph of the Improvement District Resolution, will be the successor to such Paying Agent without the execution or filing of any payer or any further act, anything in the Improvement District Resolution to the contrary notwithstanding.

The Paying Agent assumes no responsibility or liability for any information, statement or recital in any offering memorandum or other disclosure material prepared or distributed with respect to the issuance of the Improvement District Bonds. Except as provided above in this paragraph, the Paying Agent will be protected and will incur no liability in acting or preceding, or in not acting or not proceeding, in good faith, reasonably and in accordance with the terms of the Improvement District Resolution upon any Improvement District Resolution, order, notice, request, consent or waiver, certificate, statement, affidavit, or other paper or document which it will in good faith reasonably believe to be genuine and to have been adopted or signed by the proper person or to have been prepared and furnished pursuant to any provision of the Improvement District Resolution, and the Paying Agent will not be under any duty to make any investigation or inquiry as to any statements contained or matters referred to in any such instrument.

The Paying Agent will not be liable for any error of judgment made in good faith by a responsible officer of the Paying Agent unless it will be proved that the Paying Agent was negligent in ascertaining the pertinent facts.

No provision of the Improvement District Resolution will require the Paying Agent to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties under the Improvement District Resolution, or in the exercise of any of its rights or powers.

The Paying Agent will not be responsible for accounting for, or paying to, any party, including, but not limited to the Authority and the Improvement District Bond Owners, any returns on or benefit from funds held for payment of unredeemed Improvement District Bonds or outstanding checks; and no calculation of the same will affect, or result in any offset against, fees due to the Paying Agent under the Improvement District Resolution.

The Paying Agent will be under no obligation to exercise any of the rights or powers vested in it by the Improvement District Resolution at the request or direction of any of the Improvement District Bond Owners pursuant to the Improvement District Resolution unless such Improvement District Bond Owners will have offered to the Paying Agent reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction.

The Paying Agent may become the owner of the Improvement District Bonds with the same rights it would have if it were not the Paying Agent.

The Paying Agent will keep proper books of record and account in accordance with trust accounting standards in which complete and correct entries will be made of all transactions relating to the receipt, investment, disbursement, allocation and application of the funds under the Improvement District Resolution. Such records will be open to inspection by the District and by any Owner at any reasonable time during regular business hours or by reasonable notice. Not later than the fifteenth (15th) day of each month the Paying Agent will furnish to the District and to any Owner of at least \$1,000,000 in aggregate principal amount of the Improvement District Bonds who may so reasonably request (at the expense of such Owner) a complete statement covering the receipts, deposits and disbursements of the funds held by the Paying Agent under the Improvement District Resolution for the preceding month.

The District will pay to the Paying Agent from time to time reasonable compensation for all services rendered as Paying Agent under the Improvement District Resolution, and also all reasonable expenses, charges, counsel fees and other disbursements, including those of its attorneys, agents and employees, incurred in and about the performance of its powers and duties under the Improvement District Resolution; and the Paying Agent will have a lien therefor on any funds at any time held by it under the Improvement District

Resolution. The District further agrees, to the extent permitted by applicable law, to indemnify and save the Paying Agent, its officers, employees, directors and agents harmless against any costs, expenses, claims or liabilities which it may incur in the exercise and performance of its powers and duties under the Improvement District Resolution which are not due to its negligence or willful misconduct. The obligation of the District under the Improvement District will survive resignation or removal of the Paying Agent under the Improvement District Resolution and payment of the Improvement District Bonds and discharge of the Improvement District Resolution.

With respect to the Indenture, the District covenants and agrees, to the extent permitted by applicable law, to indemnify the Trustee against any loss, expense, and liability arising out of or in exercise and performance of its powers under the Indenture which are not due to the Trustee's negligence or willful misconduct, including the costs and expenses of defending against any claim, or liability. The District will defend the claims and the Trustee will cooperate in the defense. The Trustee may have separate counsel and the District will pay the fees and expenses of such counsel.

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APPENDIX G

FORM OF CONTINUING DISCLOSURE AGREEMENT

THIS CONTINUING DISCLOSURE AGREEMENT (this “Disclosure Agreement”) is made and entered into as of July 1, 2009, by the Eastern Municipal Water District (the “Water District”) and U.S. Bank National Association (the “Dissemination Agent”), in connection with the issuance by the Western Riverside Water and Wastewater Financing Authority (the “Authority”) of its Western Riverside Water and Wastewater Financing Authority Revenue Bonds, Series 2009 (Eastern Municipal Water District Improvement Districts General Obligation Bond Financing) (the “Bonds”). The Bonds are being issued pursuant to an Indenture of Trust, dated as of July 1, 2009 (the “Indenture”), by and between the Authority and U.S. Bank National Association, as trustee, and resolutions adopted by the Board of Directors of the Water District on July 15, 2009 (the “Resolutions”).

The Water District and the Dissemination Agent hereby agree as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered, for the benefit of the Owners and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule.

SECTION 2. Definitions. In addition to the definitions set forth in the Resolutions, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the Water District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“Beneficial Owner” shall mean any person who (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bond (including a person holding Bond through a nominee, depository or other intermediary), or (b) is treated as the owner of any Bond for federal income purposes.

“Disclosure Representative” shall mean the General Manager, the Chief Financial Officer or such other officer or employee of the Water District shall designate in writing to the Dissemination Agent from time to time.

“Dissemination Agent” shall mean U.S. Bank National Association or any successor Dissemination Agent designed in writing by the Water District.

“Listed Events” shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

“Official Statement” shall mean the Water District’s official statement with respect to the Bonds.

“Participating Underwriter” shall mean Piper Jaffray & Co.

“Repository” shall mean the Electronic Municipal Market Access System of the Municipal Securities Rulemaking Board, which can be found at www.emma.msrb.org, any other repository of disclosure information that may be designated by the Securities and Exchange Commission in the future.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“State Repository” shall mean any public or private repository or entity designated by the State of California as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Agreement, there is no State Repository.

“Tax-exempt” shall mean that interest on the Bonds is excluded from gross income for federal income tax purposes, whether or not such interest is includable as an item of tax preferences or otherwise includable directly or indirectly for purposes of calculating any other tax liability, including any alternative minimum tax or environmental tax.

SECTION 3. Provision of Annual Reports.

(a) Not later than seven months after the end of the Water District’s fiscal year (which currently ends on June 30), commencing February 1, 2010, the Water District shall, or shall cause the Dissemination Agent to, provide to the Repository and the Participating Underwriter an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. Not later than 15 business days prior to the date referred to in the prior sentence hereof, the Water District shall provide the Annual Report (in a form suitable for filing with the Repository) to the Dissemination Agent. The Annual Report may be submitted as a single document or as separate documents comprising a package and may include by reference other information as provided in Section 4 of this Disclosure Agreement. The Water District shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certification of the Water District and shall have no duty or obligation to review such Annual Report.

(b) If by the date required in subsection (a) the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the Water District to determine if the Water District will be filing the Annual Report in compliance with subsection (a).

(c) If the Dissemination Agent is unable to verify that an Annual Report has been provided to the Repository and the Participating Underwriter by the date required in subsection (a), the Dissemination Agent shall send a notice in substantially the form attached as Exhibit A to the Repository.

(d) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report and the name and address of the Repository;

(ii) provide any Annual Report received by it to the Repository and the Participating Underwriter, as provided herein; and

(iii) if it has provided the Annual Report pursuant to (ii) above, file a report with the Water District certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided.

SECTION 4. Content and Form of Annual Reports. The Water District’s Annual Report shall contain or include by reference:

(a) Financial Statements. The audited financial statements of the Water District for the most recent fiscal year of the Water District then ended. If the audited financial statements are not available by the time the Annual Report is required to be filed, the Annual Report shall contain any unaudited financial statements of the Water District in a format similar to the audited financial statements, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Financial and Operating Data. The Annual Report shall contain or incorporate by reference the following information:

(i) the principal amount of the Bonds outstanding as of the September 2 preceding the filing of the Annual Report;

(ii) the assessed valuation of the Taxable Property within Improvement District Nos. 21, 23, U-4, U-6, U-9, U-15, U-17, U-20, U-22, U-35 and U-36 for the then-current fiscal year; and

(iii) the tax collections and delinquencies within Improvement District 21, 23, U-4, U-6, U-9, U-15, U-17, U-20, U-22, U-35 and U-36 for the fiscal year preceding the filing of the Annual Report.

(c) Any or all of the items listed in (a) or (b) above may be included by specific reference to other documents, including official statements of debt issues of the Water District or related public entities, which have been submitted to the Repository or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Repository. The Water District shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Water District shall give, or cause the Dissemination Agent to give, notice of the occurrence of any of the following events with respect to the Bonds, if material:

- (1) principal and interest payment delinquencies,
- (2) non-payment related defaults,
- (3) unscheduled draws on any reserve fund reflecting financial difficulties,
- (4) unscheduled draws on any credit enhancements reflecting financial difficulties,
- (5) substitution of credit or liquidity providers, or their failure to perform,
- (6) adverse tax opinions or events adversely affecting the Tax-Exempt status of the Bonds,
- (7) modifications to the rights of Bond Owners,
- (8) unscheduled redemption of any Bond,
- (9) defeasances,
- (10) any release, substitution, or sale of property or letters of credit securing repayment of the Bonds, and
- (11) rating changes.

(b) Whenever the Water District obtains knowledge of the occurrence of a Listed Event, the Water District shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If the Water District has determined that the Listed Event would be material under applicable federal securities laws, the Water District shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (d).

(d) If the Dissemination Agent has been instructed by the Water District to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the Repository and the Participating Underwriter. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Owners of affected Bonds pursuant to the Resolutions.

(e) In the event that the Water District's fiscal year changes, the Water District shall give notice of such change to the Dissemination Agent and shall instruct the Dissemination Agent to report such change in the same manner and to the same parties as a material Listed Event would be reported pursuant to this Section.

(f) The Water District hereby agrees that the undertaking set forth in this Disclosure Agreement is the responsibility of the Water District, and the Dissemination Agent shall not be responsible for determining whether the Water District's instructions to the Dissemination Agent under this Section comply with the requirements of the Rule.

SECTION 6. Termination of Reporting Obligation. The obligations of the Water District and the Dissemination Agent under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Water District shall give notice of such termination in the same manner as for a Listed Event under Section 5 and the Dissemination Agent shall send a notice of termination to the Repository.

SECTION 7. Dissemination Agent. The Water District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under the Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign by providing (i) thirty days written notice to the Water District, and (ii) upon appointment of a new Dissemination Agent hereunder.

SECTION 8. Amendment.

(a) This Disclosure Agreement may be amended, by written agreement of the parties, without the consent of the Owners, and any provision of this Disclosure Agreement may be waived, if all of the following conditions are satisfied: (1) such amendment or waiver is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law, or a change in the identity, nature or status of the Water District or the type of business conducted thereby, (2) the undertakings in this Disclosure Agreement as so amended or waived would, in the opinion of a nationally recognized bond counsel, have complied with the requirements of the Rule as of the date of this Disclosure Agreement, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, and (3) the amendment or waiver either (i) is approved by the Owners of the Bonds in the same manner as provided in the Resolutions for amendments to the Resolutions with the consent of Owners or (ii) does not, in the determination of the Water District, materially impair the interests of the Owners or Beneficial Owners of the Bonds.

(b) To the extent any amendment to this Disclosure Agreement results in a change in the type of financial information or operating data provided pursuant to this Disclosure Agreement, the first Annual Report provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

(c) If an amendment is made to the basis on which financial statements are prepared, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or

information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a quantitative and, to the extent reasonably feasible, qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Water District from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Water District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Water District shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the Water District or the Dissemination Agent to comply with any provision of this Disclosure Agreement, any Owner or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Water District and/or the Dissemination Agent to comply with their respective obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Resolutions, and the sole remedy under this Disclosure Agreement in the event of any failure of the Water District or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Water District agrees to indemnify and save the Dissemination Agent and its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of their powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. Any Dissemination Agent shall be paid (i) compensation by the Water District for its services provided hereunder in accordance with a schedule of fees to be mutually agreed to; and (ii) all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall have no duty or obligation to review any information provided to it by the Water District pursuant to this Disclosure Agreement. The obligations of the Water District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds. No person shall have any right to commence any action against the Dissemination Agent seeking any remedy other than to compel specific performance of this Disclosure Agreement. The Dissemination Agent shall not be liable under any circumstances for monetary damages to any person for any breach under this Disclosure Agreement.

SECTION 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Water District, the Dissemination Agent, the Participating Underwriter and Owners and Beneficial Owners from time to time of the Bonds; and it shall create no rights in any other person or entity.

SECTION 13. Notices. Notices shall be provided, as required hereunder, to the applicable addressees below:

Disclosure Representative:

Eastern Municipal Water District
2270 Trumble Road
Perris, CA 92572-8300
Fax: (951) 928-6168
Email: finance@emwd.org
Attention: General Manager or Chief Financial Officer

Dissemination Agent:

U.S. Bank National Association
633 West Fifth Street, 24th Floor
Los Angeles, CA 90071
Fax: (213) 615-6199
Email: bradley.scarbrough@usbank.com

Participating Underwriter:

Piper Jaffray & Co.
345 California Street, Suite 2400
San Francisco, CA 94104
Fax: (415) 984-5159
Email: Rosalyn.r.chen@pjc.com

SECTION 14. Merger. Any person succeeding to all or substantially all of the Dissemination Agent's corporate trust business shall be the successor Dissemination Agent without the filing of any paper or any further act.

SECTION 15. Severability. In case any one or more of the provisions contained herein shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision hereof.

SECTION 16. Governing Law. The validity, interpretation and performance of this Disclosure Agreement shall be governed by the laws of the State of California.

SECTION 17. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

EASTERN MUNICIPAL WATER DISTRICT

By: _____
Its: General Manager

U.S. BANK NATIONAL ASSOCIATION, as Dissemination Agent

By: _____
Its: Authorized Officer

EXHIBIT A

NOTICE TO REPOSITORY OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Western Riverside Water and Wastewater Financing Authority

Name of Bond Issue: Western Riverside Water and Wastewater Financing Authority Revenue Bonds, Series 2009 (Eastern Municipal Water District Improvement Districts General Obligation Bond Financing)

Date of Issuance: August 12, 2009

NOTICE IS HEREBY GIVEN that the Eastern Municipal Water District (the "Water District") has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Agreement, dated as of July 1, 2009. [The Water District anticipates that the Annual Report will be filed by _____.]

Dated:

U.S. BANK NATIONAL ASSOCIATION, as
Dissemination Agent

By: _____

cc: Water District

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APPENDIX H

BOOK-ENTRY ONLY SYSTEM

The information in this Appendix concerning The Depository Trust Company (“DTC”), New York, New York, and DTC’s book entry system has been obtained from DTC and neither the Authority nor the Underwriter take any responsibility for the completeness or accuracy thereof. The Authority cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants (each as defined herein) will distribute to the Beneficial Owner (as defined herein) (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and the current “Procedures” of DTC to be followed in dealing with DTC Participants are on file with DTC.

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Bonds (the “Bonds”). The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, 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, 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. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. 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 and www.dtc.org.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 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 Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, redemption price and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption price and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

APPENDIX I

SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY

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Financial Guaranty Insurance Policy

Issuer:

Policy No.:

Obligations:

Premium:

Effective Date:

Assured Guaranty Corp., a Maryland corporation ("Assured Guaranty"), in consideration of the payment of the Premium and on the terms and subject to the conditions of this Policy (which includes each endorsement hereto), hereby unconditionally and irrevocably agrees to pay to the trustee (the "Trustee") or the paying agent (the "Paying Agent") for the Obligations (as set forth in the documentation providing for the issuance of and securing the Obligations) for the benefit of the Holders, that portion of the Insured Payments which shall become Due for Payment but shall be unpaid by reason of Nonpayment.

Assured Guaranty will make such Insured Payments to the Trustee or the Paying Agent on the later to occur of (i) the date applicable principal or interest becomes Due for Payment, or (ii) the Business Day next following the day on which Assured Guaranty shall have Received a completed Notice of Nonpayment. If a Notice of Nonpayment by Assured Guaranty is incomplete or does not in any instance conform to the terms and conditions of this Policy, it shall be deemed not Received, and Assured Guaranty shall promptly give notice to the Trustee or the Paying Agent. Upon receipt of such notice, the Trustee or the Paying Agent may submit an amended Notice of Nonpayment. The Trustee or the Paying Agent will disburse the Insured Payments to the Holders only upon receipt by the Trustee or the Paying Agent, in form reasonably satisfactory to it of (i) evidence of the Holder's right to receive such payments, and (ii) evidence, including without limitation any appropriate instruments of assignment, that all of the Holder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Assured Guaranty. Upon and to the extent of such disbursement, Assured Guaranty shall become the Holder of the Obligations, any appurtenant coupon thereon and right to receipt of payment of principal thereof or interest thereon, and shall be fully subrogated to all of the Holder's right title and interest thereunder, including without limitation the right to receive payments in respect of the Obligations. Payment by Assured Guaranty to the Trustee or the Paying Agent for the benefit of the Holders shall discharge the obligation of Assured Guaranty under this Policy to the extent of such payment.

This Policy is non-cancelable by Assured Guaranty for any reason. The Premium on this Policy is not refundable for any reason. This Policy does not insure against loss of any prepayment premium or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Assured Guaranty, nor against any risk other than Nonpayment.

Except to the extent expressly modified by any endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Avoided Payment" means any amount previously distributed to a Holder in respect of any Insured Payment by or on behalf of the Issuer, which amount has been recovered from such Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction that such payment constitutes an avoidable preference with respect to such Holder. "Business Day" means any day other than (i) a Saturday or Sunday, (ii) any day on which the offices of the Trustee, the Paying Agent or Assured Guaranty are closed, or (iii) any day on which banking institutions are authorized or required by law, executive order or governmental decree to be closed in the City of New York or in the State of Maryland. "Due for Payment" means (i) when referring to the principal of an Obligation, the stated maturity date thereof, or the date on which such Obligation shall have been duly called for mandatory sinking fund redemption, and does not refer to any earlier date on which payment is due by reason of a call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless Assured Guaranty in its sole discretion elects to make any principal payment, in whole or in part, on such earlier date) and (ii) when referring to interest on an Obligation, the stated date for payment of such interest. "Holder" means, in respect of any Obligation, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Obligation to payment of principal or interest thereunder, except that Holder shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Obligations. "Insured Payments" means that portion of the principal of and interest on the Obligations that shall become Due for Payment but shall be unpaid by reason of Nonpayment. Insured Payments shall not include any additional amounts owing by the Issuer solely as a result of the failure by the Trustee or the Paying Agent to pay such amount when due and payable, including without limitation any such additional amounts as may be attributable to penalties or to interest accruing at a default rate, to amounts payable in respect of indemnification, or to any other additional amounts payable by the Trustee or the Paying Agent by reason of such failure. "Nonpayment" means, in respect of an Obligation, the failure of the Issuer to have provided sufficient funds to the Trustee or the Paying Agent for payment in full of all principal and interest Due for Payment on such Obligation. It is further understood that the term "Nonpayment" in respect of an Obligation includes any Avoided Payment. "Receipt" or "Received" means actual receipt or notice of or, if notice is given by overnight or other delivery service, or by certified or registered United States mail, by a delivery receipt signed by a person authorized to accept delivery on behalf of the person to whom the notice was given. Notices to Assured Guaranty may be mailed by registered mail or personally delivered or telecopied to it at 1325 Avenue of the Americas, New York, New York 10019, Telephone Number: (212) 974-0100, Facsimile Number: (212) 581-3268, Attention: Risk Management Department - Public Finance Surveillance, with a copy to the General Counsel, or to such other address as shall be specified by Assured Guaranty to the Trustee or the Paying Agent in writing. A Notice of Nonpayment will be deemed to be Received by Assured Guaranty on a given Business Day if it is Received prior to 12:00 noon (New York City time) on such Business Day; otherwise it will be deemed Received on the next Business Day. "Term" means the period from and including the Effective Date until the earlier of (i) the maturity date for the Obligations, or (ii) the date on which the Issuer has made all payments required to be made on the Obligations.

At any time during the Term of this Policy, Assured Guaranty may appoint a fiscal agent (the "Fiscal Agent") for purposes of this Policy by written notice to the Trustee or the Paying Agent, specifying the name and notice address of such Fiscal Agent. From and after the date of Receipt of such notice by the Trustee or the Paying Agent, copies of all notices and documents required to be delivered to Assured Guaranty pursuant to this Policy shall be delivered simultaneously to the Fiscal Agent and to Assured Guaranty. All payments required to be made by Assured Guaranty under this Policy may be made directly by Assured Guaranty or by the Fiscal Agent on behalf of Assured Guaranty. The Fiscal Agent is the agent of Assured Guaranty only, and the Fiscal Agent shall in no event be liable to the Trustee or the Paying Agent for any acts of the Fiscal Agent or any failure of Assured Guaranty to deposit, or cause to be deposited, sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Assured Guaranty hereby waives, in each case for the benefit of the Holders only, all rights and defenses of any kind (including, without limitation, the defense of fraud in the inducement or in fact or any other circumstance that would have the effect of discharging a surety, guarantor or any other person in law or in equity) that may be available to Assured Guaranty to deny or avoid payment of its obligations under this Policy in accordance with the express provisions hereof. Nothing in this paragraph will be construed (i) to waive, limit or otherwise impair, and Assured Guaranty expressly reserves, Assured Guaranty's rights and remedies, including, without limitation: its right to assert any claim or to pursue recoveries (based on contractual rights, securities law violations, fraud or other causes of action) against any person or entity, in each case, whether directly or acquired as a subrogee, assignee or otherwise, subsequent to making any payment to the Trustee or the Paying Agent, in accordance with the express provisions hereof, and/or (ii) to require payment by Assured Guaranty of any amounts that have been previously paid or that are not otherwise due in accordance with the express provisions of this Policy.

This Policy (which includes each endorsement hereto) sets forth in full the undertaking of Assured Guaranty with respect to the subject matter hereof, and may not be modified, altered or affected by any other agreement or instrument, including, without limitation, any modification thereto or amendment thereof. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. This Policy will be governed by, and shall be construed in accordance with, the laws of the State of New York.

IN WITNESS WHEREOF, Assured Guaranty has caused this Policy to be affixed with its corporate seal, to be signed by its duly authorized officer, and to become effective and binding upon Assured Guaranty by virtue of such signature.

ASSURED GUARANTY CORP.

(SEAL)

By: _____
Authorized Officer

Signature attested to by:

Counsel

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