

PRELIMINARY OFFICIAL STATEMENT SUPPLEMENT NO. 1

Dated: January 18, 2013

\$8,710,000*
NORTH OF RIVER SANITARY DISTRICT NO. 1
(COUNTY OF KERN, CALIFORNIA)
WASTEWATER REVENUE REFUNDING BONDS
SERIES 2013A
(Bank Qualified)

This Preliminary Official Statement Supplement No. 1 (the "Supplement") sets forth certain supplemental information to that contained in the Preliminary Official Statement dated January 10, 2013 (the "Preliminary Official Statement") relating to the \$8,710,000* North of River Sanitary District No. 1 Wastewater Revenue Refunding Bonds, Series 2013A (Bank Qualified) (the "Bonds"). This Supplement should be read together with the Preliminary Official Statement (a copy of which is available on request from the City or the Underwriter and which is incorporated herein by reference). To the extent the information in this Supplement conflicts with the information in the Preliminary Official Statement, this Supplement shall govern. This Supplement constitutes an integral part of the Preliminary Official Statement and recipients are requested to attach this Supplement to the Preliminary Official Statement. Unless otherwise defined in this Supplement, all capitalized terms used herein shall have the same meanings as those terms in the Preliminary Official Statement.

The Preliminary Official Statement is hereby amended to replace in the section captioned "MUNICIPAL BOND INSURANCE — Assured Guaranty Municipal Corp." the reference to "Aa3" (on review for possible downgrade)" with "A2" (stable outlook)" in the second paragraph thereof.

The Preliminary Official Statement is hereby further amended to delete the first sentence in the first paragraph of the section captioned "MUNICIPAL BOND INSURANCE — Assured Guaranty Municipal Corp. — *Current Financial Strength Ratings*" and replace same with the following: "On January 17, 2013, Moody's issued a press release stating that it had downgraded AGM's insurance financial strength rating to "A2" (stable outlook) from "Aa3.""

* Preliminary, subject to change.

PRELIMINARY OFFICIAL STATEMENT DATED JANUARY 10, 2013

NEW ISSUE - BOOK-ENTRY ONLY

RATING: S&P: "AA-" (Insured)
"A+" (Underlying)
(See "RATINGS" herein.)

In the opinion of Nossaman LLP, Irvine, California, Bond Counsel, based on existing statutes, regulations, rulings and court decisions and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excludable from gross income for federal income tax purposes, and is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that it is included in adjusted current earnings in calculating corporate alternative minimum taxable income. In the further opinion of Bond Counsel, interest on the Bonds is, under existing law, exempt from State of California personal income taxes. Bond Counsel expresses no opinion regarding other federal or State tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. The District has designated the Bonds as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended. See "TAX MATTERS" herein.

\$8,710,000*
NORTH OF RIVER SANITARY DISTRICT NO. 1
(COUNTY OF KERN, CALIFORNIA)
WASTEWATER REVENUE REFUNDING BONDS
SERIES 2013A
(BANK QUALIFIED)

Dated: Date of Delivery

Due: May 1, as shown on inside cover

The Bonds are being issued pursuant to an Indenture of Trust, dated as of February 1, 2013 (the "Indenture") between the North of River Sanitary District No. 1 (the "District") and U.S. Bank National Association (the "Trustee"), and will be secured as described herein. The Bonds are being issued (i) to provide funds to refinance certain obligations of the District; (ii) to purchase a reserve fund surety bond for the Bonds; and (iii) to pay certain costs of issuing the Bonds. Definitions of certain capitalized terms herein are contained in APPENDIX A hereto, and are incorporated herein by reference.

The Bonds will be issued in book-entry form, initially registered in the name of Cede & Co., New York, New York, as nominee of The Depository Trust Company ("DTC"), New York, New York. Interest on the Bonds will be payable on May 1 and November 1 of each year, commencing May 1, 2013, and principal of the Bonds will be paid on the dates set forth in the Maturity Schedule on inside cover hereof. Purchasers will not receive certificates representing their interest in the Bonds. Individual purchases will be in principal amounts of \$5,000 or in any integral multiples of \$5,000. Payments of principal and interest will be paid by the Trustee to DTC for subsequent disbursement to DTC Participants who will remit such payments to the beneficial owners of the Bonds.

Payment of principal of and interest on the Bonds (the "Debt Service Payments") are payable from Net Revenues of the District's wastewater system. The Debt Service Payments are a special limited obligation of the District, payable from and secured by a pledge of and first lien on all Net Revenues, subject to the parity lien, if any, of any Parity Obligations as provided for in the Indenture (as described herein).

The Bonds are not subject to optional redemption or mandatory sinking fund redemption, but are subject to extraordinary casualty redemption, prior to maturity as set forth herein. See "THE BONDS -- Redemption of the Bonds" herein.

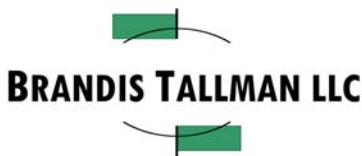
THE BONDS ARE LIMITED OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM AND SECURED SOLELY BY THE NET REVENUES PLEDGED THEREFOR IN THE INDENTURE AND ARE NOT SECURED BY A LEGAL OR EQUITABLE PLEDGE OF, OR CHARGE OR LIEN UPON ANY PROPERTY OF THE DISTRICT, OR ANY OF THE DISTRICT'S INCOME OR RECEIPTS, EXCEPT THE NET REVENUES. THE BONDS ARE NOT A DEBT OF THE DISTRICT, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS AND NEITHER THE FAITH AND CREDIT OF THE DISTRICT, THE STATE NOR ANY OF ITS POLITICAL SUBDIVISIONS ARE PLEDGED TO THE PAYMENT OF THE BONDS, AND THE DISTRICT IS NOT OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION THEREFOR. NEITHER THE BONDS NOR THE OBLIGATION TO MAKE DEBT SERVICE PAYMENTS CONSTITUTES AN INDEBTEDNESS OF THE DISTRICT, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy (the "Insurance Policy") to be issued concurrently with the delivery of Bonds by Assured Guaranty Municipal Corp.



This cover page contains information for general reference only. It is not a summary of the security or terms of this issue. Investors must read the entire Official Statement, including the section entitled "RISK FACTORS," for a discussion of special factors which should be considered, in addition to the other matters set forth herein, in considering the investment quality of the Bonds. Capitalized terms used on this cover page and not otherwise defined shall have the meanings set forth herein.

The Bonds are offered when, as and if sold and issued, subject to the approval as to their legality by Nossaman LLP, Irvine, California, Bond Counsel. Certain legal matters will be passed upon for the District by its general counsel, and by Nossaman LLP, Irvine, California, Disclosure Counsel. It is anticipated that the Bonds in book-entry form, will be available for delivery through the facilities of DTC in New York, New York, on or about February ____, 2013.



Date:

* Preliminary, subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer solicitation or sale would be unlawful.

MATURITY SCHEDULE*

Maturity Date <u>(May 1)</u>	Principal <u>Amount</u>	Interest <u>Rate</u>	Price or <u>Yield</u>	<u>CUSIP</u>[®]
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* Preliminary, subject to change.

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NORTH OF RIVER SANITARY DISTRICT NO. 1

BOARD OF DIRECTORS

Gary McKibbin, President
Steve Ruetters, Vice President
Sandra Murphy, Director
Samuel Scoles, Director
Steve Shoffner, Director

DISTRICT STAFF

LaRue Griffin, General Manager
Nancy Lee, Secretary
Chad Vancil, Collection System Supervisor
Joe Ferrari, Wastewater Treatment Plant Laboratory Director

SPECIAL SERVICES

Bond/Disclosure Counsel

Nossaman LLP
Irvine, California

Trustee/Escrow Agent

U.S. Bank National Association
Los Angeles, California

District General Counsel

Klein, Denatale, Goldner, Cooper, Rosenlieb & Kimball LLP
Bakersfield, California

No dealer, broker, salesperson or other person has been authorized by the District or the Underwriter to give any information or to make any representations other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by the District or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. This Official Statement is not to be construed as a contract with the purchasers of the 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 information set forth herein has been obtained from the District and other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Underwriter. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities under 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 opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there have not been any changes in the affairs of the District since the date hereof. All summaries of the 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. This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

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

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

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OFFICIAL STATEMENT

\$8,710,000*

**NORTH OF RIVER SANITARY DISTRICT NO. 1
(COUNTY OF KERN, CALIFORNIA)
WASTEWATER REVENUE REFUNDING BONDS
SERIES 2013A
(BANK QUALIFIED)**

INTRODUCTION

General

The purpose of this Official Statement of North of River Sanitary District No. 1 (the "District") is to furnish information regarding the issuance and sale of \$_____ * principal amount of North of River Sanitary District No. 1 Wastewater Revenue Refunding Bonds, Series 2013A (the "Bonds") pursuant to the provisions of an Indenture of Trust, dated as of February 1, 2013 (the "Indenture") between the District and U.S. Bank National Association (the "Trustee"). The Bonds will be issued pursuant to the provisions of Articles 10 and 11, Division 2, Title 5 (commencing with Section 53570) of the California Government Code, as amended (the "Bond Law"), and a resolution of the District adopted December 18, 2012 (the "Resolution").

The District

The District was incorporated in 1940 and operates as a special district and public agency under the County Sanitation District Act, (California Health and Safety Code Section 4700 *et seq.*). The District serves approximately 15,830 acres in the northern central portion of Kern County (the "County") in the area between the cities of Bakersfield and Shafter. The territory served by the District is comprised of lands within the unincorporated area of the County and portions of the City of Bakersfield. Approximately 46% of the District is developed, primarily with residential housing. The remainder of the District is either agricultural land or undeveloped land suitable for development.

The District is the sole provider of wastewater service for residential, commercial and industrial enterprises within its service area. Approximately 96% of District connections are from residential users.

For other information concerning the District and the Wastewater System, see "THE DISTRICT AND THE WASTEWATER SYSTEM" herein. For other selected demographic and economic information, see "APPENDIX B - GENERAL INFORMATION REGARDING THE CITY OF BAKERSFIELD AND COUNTY OF KERN" hereto. A copy of the audited financial statements of the District for the year ended June 30, 2012 is attached hereto as APPENDIX C.

* Preliminary, subject to change.

Purpose

The Bonds are being issued by the District to (i) together with other available funds of the District, refinance the District's 2003 Refunding Revenue Bonds issued in the original principal amount of \$13,940,000, of which \$9,135,000 is currently outstanding (the "Prior Obligations"), (ii) purchase a reserve fund surety bond for the Bonds, and (iii) pay certain costs of issuance of the Bonds (including expenses incurred in connection with the refunding of the Prior Obligations). See "THE REFUNDING PLAN" and "ESTIMATED SOURCES AND USES OF FUNDS" herein. The Prior Obligations were issued to refinance certain outstanding obligations of the District issued by the District in 1993. See "THE DISTRICT AND THE WASTEWATER SYSTEM" herein for a description of the Wastewater System.

Security for the Bonds

The Bonds are payable from, and secured by a lien on, the Net Revenues (as described in "SECURITY FOR THE BONDS - General" herein), and from certain interest and other income derived from certain funds and accounts held under the Indenture. Under the Indenture, the District has irrevocably pledged all Net Revenues to the payment of the Debt Service Payments, subject to the terms and conditions of the Indenture. Net Revenues are held in the Debt Service Fund of the District under the Indenture. See "SECURITY FOR THE BONDS" herein.

The District is authorized to issue additional Parity Obligations secured by the Net Revenues with a lien on a parity basis with the lien of the Bonds, provided it complies with certain provisions in the Indenture. Payment of the Debt Service Payments is on a parity with the obligation of the District to make loan payments under a State Revolving Fund Loan made to the District by the State Water Resources Control Board in the original principal amount of \$13,217,689 under Contract No. 7-8L1-550-0 between the District and the State (the "SRF Loan").

See also "THE BONDS – Issuance of Parity Obligations" herein for a description of the conditions upon which the District may issue additional obligations with a lien on parity with the lien on Net Revenues.

Pursuant to the Indenture, the District has covenanted to fix, prescribe and collect certain rates and charges for service provided by the Wastewater System. See "SECURITY FOR THE BONDS - Rate Covenant" herein.

Payment of the principal and interest on the Bonds when due will be insured by a municipal bond insurance policy (the "Insurance Policy") to be issued by Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.) (the "Insurer") simultaneously with the issuance of the Bonds. See "MUNICIPAL BOND INSURANCE" and "RISK FACTORS – Insurer Default" herein.

Risk Factors

There can be no assurance that the local demand for the services provided by the Wastewater System will be maintained at levels described in this Official Statement, or that the District's expenses for operating and maintaining the Wastewater System will be consistent with the levels described in this Official Statement. Changes in technology, new regulatory requirements, increases in the cost of energy or other expenses would reduce Net

Revenues, and could require substantial increases in rates or charges in order to comply with the rate covenant. Such rate increases could increase the likelihood of nonpayment.

See “RISK FACTORS” herein for a discussion of special factors which should be considered, in addition to the other matters set forth herein, in considering the investment quality of the Bonds, including a discussion of the impact of Proposition 218, Constitutional limits on fees and charges, seismic considerations, limitation on remedies and changes in law.

Limited Obligations

THE OBLIGATION OF THE DISTRICT TO PAY PRINCIPAL OF AND INTEREST ON THE BONDS IS A LIMITED OBLIGATION OF THE DISTRICT AND IS NOT SECURED BY A LEGAL OR EQUITABLE PLEDGE OF, OR CHARGE OR LIEN UPON, ANY PROPERTY OF THE DISTRICT OR ANY OF ITS INCOME OR RECEIPTS, EXCEPT THE NET REVENUES PLEDGED UNDER THE INDENTURE. THE FULL FAITH AND CREDIT OF THE DISTRICT IS NOT PLEDGED FOR THE PAYMENT OF PRINCIPAL OF AND INTEREST ON THE BONDS AND NO TAX OR OTHER SOURCE OF FUNDS, OTHER THAN THE NET REVENUES AND CERTAIN OTHER AMOUNTS ON DEPOSIT UNDER THE INDENTURE, ARE PLEDGED TO PAY THE INTEREST ON OR PRINCIPAL OF THE BONDS. THE PAYMENT OF THE PRINCIPAL OF OR INTEREST WITH RESPECT TO THE BONDS DOES NOT CONSTITUTE A DEBT, LIABILITY OR OBLIGATION OF THE DISTRICT, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF FOR WHICH ANY SUCH ENTITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH ANY SUCH ENTITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

Forward-Looking Statements

This Official Statement contains forward-looking statements, including (i) statements containing projections of Net Revenues and other financial items, (ii) statements of future economic performance of the Wastewater System, and (iii) statements of the assumptions underlying or relating to statements described in (i) and (ii) above, (collectively, the “Forward-Looking Statements”). All statements other than statements of historical facts included in this Official Statement, including without limitation statements under “THE DISTRICT AND THE WASTEWATER SYSTEM,” and “SECURITY FOR THE BONDS” regarding the financial position, capital resources and status of the District and the Wastewater System are Forward-Looking Statements. Although the District believes that the expectations reflected in such Forward-Looking Statements are reasonable, no assurance can be given that such expectations will prove to be correct. Important factors which could cause actual results to differ materially from expectations of the District (collectively, the “Cautionary Statements”) are disclosed in this Official Statement. All Forward-Looking Statements attributable to the District are expressly qualified in their entirety by the Cautionary Statements.

Summaries Not Definitive

Definitions of certain capitalized terms herein are contained in APPENDIX A hereto, and are incorporated herein by reference. Definitions of certain terms used in this Official Statement, and the summaries of and references contained herein to the Indenture, the Bonds, the Continuing Disclosure Agreement, statutes and other documents do not purport to be comprehensive or definitive and are qualified by reference to each such document, instrument or statute.

Copies of the documents described herein will be available at the office of the District, 204 Universe Avenue, Bakersfield, CA 93308.

THE REFUNDING PLAN

The District is selling the Bonds, in part, to provide moneys (together with other funds relating to the Prior Obligations) necessary to redeem and defease the Prior Obligations. A portion of the proceeds of the Bonds, along with certain remaining funds from the Prior Obligations will be used on the Closing Date to establish an escrow fund (the "Escrow Fund") for the Prior Obligations, to be held in trust by U.S. Bank National Association, acting as escrow agent for the Prior Obligations (the "Escrow Agent") under Escrow Instructions between the District and the Escrow Agent, dated as of February 1, 2013 (the "Escrow Instructions"). Proceeds deposited into the Escrow Fund will be held in cash, uninvested, and will be used by the Escrow Agent to redeem the outstanding Prior Obligations maturing on or after May 1, 2013 on May 1, 2013, at a redemption price equal to 102% of the principal amount thereof as specified in the Escrow Instructions. Upon deposit of such proceeds and other moneys into the Escrow Fund, the Prior Obligations will no longer be deemed outstanding.

The moneys and securities held by the Escrow Agent are pledged to the payment of the Prior Obligations. Moneys deposited in the Escrow Fund are not available to pay principal of or interest on the Bonds.

CONTINUING DISCLOSURE

The District has covenanted, pursuant to a Continuing Disclosure Agreement, dated as of February 1, 2013, for the benefit of holders and beneficial owners of the Bonds to provide, or cause to be provided, certain financial information and operating data relating to the District by not later than March 1 in each year following the end of the District's Fiscal Year (which currently would be June 30), commencing with the report for the Fiscal Year ended June 30, 2013 (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report and notices of material events will be filed by the District with the Municipal Securities Rulemaking Board. The specific nature of the information to be contained in the Annual Report or the notices of material events is summarized below in "APPENDIX E." These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) (the "Rule"). Within the past five years, the District failed to file in a timely manner its audits and the annual reports, as required by its existing continuing disclosure obligations. As of the date of this Official Statement, the District has made corrective filings as a best effort to come into compliance with Rule 15c2-12(b)(5). The District has recently retained Applied Best Practices, LLC to assist with its future filing obligations.

THE BONDS

Description of the Bonds

The Bonds shall be delivered in the form of fully registered Bonds, without coupons, in denominations of \$5,000 or any integral multiple thereof, and shall be dated the date of initial delivery thereof. The Bonds will mature on the dates and in the amounts set forth on the front cover of this Official Statement. The Bonds, when issued, will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York ("DTC"). So long as DTC, or Cede & Co. as its nominee, is the registered owner of all Bonds, all payments on the Bonds will be made directly to DTC, and disbursement of such

payments to the DTC Participants (defined below) will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners (defined below) will be the responsibility of the DTC Participants, as more fully described hereinafter. See “Book-Entry Only System” below.

Interest on the Bonds shall be payable on May 1 and November 1 of each year, commencing May 1, 2013, and continuing to and including the date of maturity or prior redemption, whichever is earlier. Principal of the Bonds shall become payable on May 1 in each of the years and in the amounts set forth on the inside cover page of this Official Statement. Principal and premium, if any, of the Bonds shall be payable upon presentation and surrender thereof at the corporate trust office of the Trustee in St. Paul, Minnesota. Interest on the Bonds shall be based on a 360-day year composed of twelve 30-day months and shall be payable by check from the Trustee mailed on each Interest Payment Date by first class mail to the registered Owners as of the close of business on the 15th day of the calendar month (whether or not such day is a Business Day) preceding an Interest Payment Date (the “Record Date”) at their addresses shown on the registration books maintained by the Trustee. Upon the written request from any Owner of Bonds aggregating at least \$1,000,000 in principal amount, received on or prior to the fifteenth day of the month preceding an applicable Interest Payment Date, by wire in Federal Reserve funds to an account within the United States on the Interest Payment Date, with regard to which such payment is made. See “Book-Entry Only System” below for a description of how interest and principal will be paid while the Book-Entry System is in effect.

Redemption of the Bonds *

Optional Redemption. The Bonds are not subject to optional redemption prior to their respective stated maturities.

Extraordinary Casualty Redemption. The Bonds are subject to redemption, in whole or in part on any date, from the Net Proceeds of insurance or condemnation with respect to the Wastewater System, which Net Proceeds are deposited in the Payment Fund and credited towards the prepayment of the Debt Service Payments, at a redemption price equal to the principal amount of the Bonds to be redeemed, together with accrued interest to the date fixed for redemption, without premium.

Purchase in Lieu of Redemption. In lieu, or partially in lieu, of such call and redemption, moneys of the District may be used to purchase Outstanding Bonds prior to the selection of Bonds for redemption by the Trustee, at public or private sale as and when and at such prices as the District may in its discretion determine but only at prices (including brokerage or other expenses) of not more than par plus applicable accrued interest and redemption premiums, and any accrued interest payable upon the purchase of Bonds may be paid from the amount in the Payment Fund for payment of interest on the following Interest Payment Date.

Selection of Bonds for Redemption. In the event that part, but not all, of the Bonds are to be redeemed, the Bonds to be redeemed shall be selected by the Trustee among maturities as designated in writing by the District and by lot within a maturity; provided, however, that, as shall be set forth in a Certificate of the District, the Bonds may be redeemed by any maturity or maturities selected by the District, and by lot within a maturity. For the

* Preliminary, subject to change.

purpose of the selection described in this Section, all Bonds registered in the name of the same Owner shall be aggregated and treated as a single Bond held by such Owner. Notwithstanding any of the foregoing, in any such partial redemption the Trustee shall call the Bonds in integral multiples of \$5,000. In the event of a redemption for which the Trustee does not have monies available to redeem the entire amount scheduled for redemption, the Trustee shall redeem Bonds of the applicable maturity or maturities by lot up to a principal amount equal to the available monies.

Notice of Redemption. The Trustee shall give notice (the "Redemption Notice"), at the expense of the District, of the redemption of the Bonds. Such Redemption Notice shall specify: (a) the Bonds or designated portions thereof (in the case of redemption of the Bonds in part but not in whole) which are to be redeemed, (b) the date of redemption, (c) the place or places where the redemption will be made, including the name and address of any paying agent, (d) the redemption price, (e) the CUSIP numbers (if any) assigned to the Bonds to be redeemed, (f) if less than all the Bonds of a maturity are to be redeemed, the certificate numbers of the Bonds to be redeemed and, in the case of any Bond to be redeemed in part only, the amount of such Bond to be redeemed, and (g) the original issue date, interest rate and stated maturity date of each Bond to be redeemed in whole or in part. Such Redemption Notice shall further state that on the specified date there shall become due and payable upon each Bond or portion thereof being redeemed the redemption price, together with interest accrued to the redemption date, and that from and after such date interest with respect thereto shall cease to accrue and be payable. Neither failure to receive any Redemption Notice nor any defect in such Redemption Notice so given shall affect the sufficiency of the proceedings for the redemption of such Bonds.

Effect of Redemption. If, on said redemption date, moneys sufficient for the redemption of all the Bonds to be redeemed, together with interest to said redemption date shall be held by the Trustee so as to be available therefor on such redemption date, and, if notice of redemption thereof shall have been given as aforesaid, then, from and after said redemption date, interest with respect to the portion of Bonds to be redeemed shall cease to accrue and become payable. If said moneys shall not be so available on said redemption date, interest with respect to such portion of Bonds shall continue to be payable until paid at the same rates as they would have been payable had they not been called for redemption.

Issuance of Parity Obligations

The District has covenanted in the Indenture that, except for bonds issued to fully or partially refund the Bonds or Parity Obligations, the District will not issue or incur any Parity Obligations unless:

(i) The District is not in default under the terms of the Indenture;

(ii) Net Revenues (exclusive of transfers to the Revenue Fund from the Rate Stabilization Fund), calculated on sound accounting principles, as shown by the books of the District for the latest Fiscal Year or any more recent twelve (12) month period selected by the District ending not more than sixty (60) days prior to the adoption of the resolution pursuant to which instrument such Parity Obligation is issued or incurred, as shown by the books of the District, plus, at the option of the District, the additional allowance described below, shall have amounted to at least 1.25 times the sum of the Debt Service Payments coming due and payable in any future Fiscal Year and the annual debt service for such Fiscal Year on all Parity

Obligations outstanding immediately subsequent to the incurring of such additional obligations in the Fiscal Year in which such sum is the greatest; and

(iii) Except with respect to Governmental Loans, there will be established from the proceeds of such Parity Obligations a reserve fund for the security of such Parity Obligations, in an amount equal to the lesser of (i) the maximum amount of debt service required to be paid by the District with respect to such Parity Obligations during any Fiscal Year, or (ii) the maximum amount then permitted under the Code, in either event as certified in writing by the District. With respect to Governmental Loans, the District may, in its sole discretion, establish a reserve fund in an amount not to exceed the limits set forth in the Indenture.

Either or both of the following items may be added to such Net Revenues for the purpose of applying the restriction contained in subsection (ii) above:

(A) an allowance for Net Revenues from any additions to or improvements or extensions of the Wastewater System to be constructed or acquired with the proceeds of such additional obligations, and also for Net Revenues from any such additions, improvements or extensions which have been constructed or acquired from moneys from any source but which, during all or any part of such Fiscal Year or 12-month period, were not in service, all in an amount equal to the estimated additional annual Net Revenues to be derived from such additions, improvements and extensions during the first full Fiscal Year following the completion thereof, all as shown by a certificate of the District, may be added to such Net Revenues for the purpose of applying the restriction contained in subsection (ii) above;

(B) an allowance for earnings arising from any increase in the charges made for service from the Wastewater System which has become effective prior to the incurring of such additional obligations but which, during all or any part of such Fiscal Year or 12-month period, was not in effect, in an amount equal to 100% of the amount by which the Net Revenues would have been increased if such increase in charges had been in effect during the whole of such Fiscal Year or 12-month period, as shown by a certificate of the District.

The provisions of subsection (ii) above will not apply to any Parity Obligations if all of the proceeds of which (other than proceeds applied to pay costs of issuing such Parity Obligations and to make the reserve fund deposit required pursuant to subsection (iii) above) will be deposited in an irrevocable escrow held in cash or invested in Federal Securities for the purpose of paying the principal of and interest and premium (if any) on any Outstanding Bonds or on any outstanding Parity Obligations, if (i) at the time of the incurring of such Parity Obligations, the District certifies in writing that maximum annual debt service on such Parity Obligations will not exceed Maximum Annual Debt Service on the Outstanding Bonds or Parity Obligations to be refunded, and (ii) the final maturity of such Parity Obligations is not later than the final maturity of the refunded Bonds or Parity Obligations.

In order to maintain the parity relationship of the Debt Service Payments to all Parity Obligations permitted under the Indenture, the District has covenanted in the Indenture that all payments in the nature of principal and interest with respect to any Parity Obligations, except with respect to Governmental Loans, will be structured to occur semi-annually on the Due Dates and in each year as such payments are due with respect to the Debt Service Payments, and to otherwise structure the terms of such Parity Obligations to ensure that they are in all respects payable on a parity with the Debt Service Payments and not prior thereto; provided that the District will not make a payment on such Governmental Loan to the extent it would have the effect of causing the District to fail to pay Debt Service Payments on a timely basis. In such

event, the District will make Debt Service Payments and payments on such Governmental Loan on a pro rata basis.

If interest on any Parity Obligation is reasonably anticipated to be reimbursed to or on behalf of the District by the United States of America, then interest payments with respect to such Parity Obligations will be excluded by the amount of such interest reasonably anticipated to be paid or reimbursed by the United States of America, and such reimbursements will not be included as Gross Revenues for purposes of the coverage calculations required in subsection (ii) above.

Subordinate Obligations. Notwithstanding the foregoing, nothing in the Indenture will be construed as prohibiting the issuance by the District of subordinated debt secured by Net Revenues.

Book-Entry Only System

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Bond will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. See "APPENDIX F - BOOK ENTRY PROVISIONS" herein.

Neither the District nor the Trustee can and do not give any assurances that DTC, DTC Participants or others will distribute payments of principal, interest or premium with respect to the Bonds paid to DTC or its nominee as the registered owner, or will distribute any redemption notices or other notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. Neither the District nor the Trustee are responsible or liable for the failure of DTC or any DTC Participant to make any payment or give any notice to a Beneficial Owner with respect to the Bonds or an error or delay relating thereto.

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds received from the sale of the Bonds and other available funds are to be applied as follows:

Sources of Funds:

Principal Amount of Bonds	\$8,710,000*
Net Original Issue [Discount] [Premium]	
Amount Relating to Prior Obligations	
TOTAL SOURCES	

Uses of Funds:

Transfer to Escrow Agent ⁽¹⁾
Costs of Issuance ⁽²⁾
TOTAL USES

(1) See "THE REFUNDING PLAN" above.

(2) Includes fees of Bond Counsel, Disclosure Counsel and Trustee, Underwriter's discount, premium for the Insurance Policy and Reserve Fund Surety Bond, and other costs of issuing the Bonds.

DEBT SERVICE

The following illustrates the annual debt service for the Bonds as of May 1 of each year.

Period Ending (May 1)	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2014			
2015			
2016			
2017			
2018			
2019			
2020			
2021			
2022			
2023			
TOTALS			

* Preliminary, subject to change.

SECURITY FOR THE BONDS

General

THE OBLIGATION OF THE DISTRICT TO PAY PRINCIPAL OF AND INTEREST ON THE BONDS IS A LIMITED OBLIGATION OF THE DISTRICT AND IS NOT SECURED BY A LEGAL OR EQUITABLE PLEDGE OF, OR CHARGE OR LIEN UPON, ANY PROPERTY OF THE DISTRICT OR ANY OF ITS INCOME OR RECEIPTS, EXCEPT THE NET REVENUES PLEDGED UNDER THE INDENTURE. THE FULL FAITH AND CREDIT OF THE DISTRICT IS NOT PLEDGED FOR THE PAYMENT OF PRINCIPAL OF AND INTEREST ON THE BONDS AND NO TAX OR OTHER SOURCE OF FUNDS, OTHER THAN THE NET REVENUES AND CERTAIN OTHER AMOUNTS ON DEPOSIT UNDER THE INDENTURE, ARE PLEDGED TO PAY THE INTEREST ON OR PRINCIPAL OF THE BONDS. THE PAYMENT OF THE PRINCIPAL OF OR INTEREST WITH RESPECT TO THE BONDS DOES NOT CONSTITUTE A DEBT, LIABILITY OR OBLIGATION OF THE DISTRICT, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF FOR WHICH ANY SUCH ENTITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH ANY SUCH ENTITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

Pledge of Net Revenues

The Bonds are secured by a pledge of the Net Revenues received by the District from the operation of the Wastewater System, as those terms are defined below and upon all money and securities on deposit in certain accounts under the Indenture, including the Reserve Fund. The obligation of the District to make Debt Service Payments from Net Revenues is absolute and unconditional, and until such time as all Debt Service Payments shall have been fully paid and the Bonds are no longer Outstanding (or provision for the payment thereof shall have been made), the District will not, under any circumstances, discontinue, abate or suspend any payment due under the Indenture when due, whether or not the Wastewater System is operating or operable or has been completed, or whether or not the Wastewater System is condemned, damaged, destroyed or seized or its use is suspended, interfered with, reduced or curtailed or terminated in whole or in part, and such payments shall not be subject to reduction whether by offset, counterclaim, defense, recoupment, abatement, suspension, deferment or otherwise and shall not be conditional upon the performance or nonperformance by any party of any agreement or covenant contained in the Indenture for any cause whatsoever.

All Net Revenues are irrevocably pledged by the District to the payment of Debt Service Payments and debt service on Parity Obligations (including payments securing the SRF Loan) as provided in the Indenture, and the Net Revenues shall not be used for any other purpose while any of the Bonds remain Outstanding; provided, however, that out of the Net Revenues, there may be apportioned such sums for such purposes as are expressly permitted by the Indenture, including payment of debt service on any Parity Obligations. This pledge shall constitute a first lien on the Net Revenues for the payment of the Debt Service Payments and debt service on any Parity Obligations in accordance with the Indenture. **The Bonds are not secured by a direct lien on the Wastewater System or any other property of the District.**

In the Indenture, the District covenants that, so long as any Bonds are outstanding, the District will not issue or incur any obligations payable from Gross Revenues or Net Revenues superior to the payment of the Debt Service Payments or Parity Obligations. The District is authorized to issue additional Parity Obligations secured by Net Revenues with a lien on a

parity basis with the lien of the Bonds, provided it complies with certain provisions in the Indenture. See “THE BONDS – Issuance of Parity Obligations” herein. The District is also authorized to issue subordinate debt secured by Net Revenues.

“Net Revenues” are, for any period, an amount equal to all of the Gross Revenues received during such period minus the amount required to pay all Operation and Maintenance Expenses becoming payable during such period.

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

“Gross Revenues” means all gross charges (including surcharges, if any) received for, and all other gross income and receipts derived by the District from, the ownership and operation of the Wastewater System or otherwise arising from the Wastewater System, including but not limited to (a) connection charges, (b) investment earnings on amounts held in the Revenue Fund or in any other fund established with respect to the Wastewater System, (c) the proceeds of any ad valorem property taxes levied for the purposes of paying bonded indebtedness of the District, and (d) rental income related to the Wastewater System. Gross Revenues does not include (i) refundable deposits made to establish credit, and (ii) the proceeds of any special assessments or special taxes levied upon real property within any improvement district served by the District for the purpose of paying special assessment bonds or special tax obligations of the District relating to the Wastewater System. Gross Revenues will also include interest with respect to any Parity Obligations reimbursed to or on behalf of the District by the United States of America. Gross Revenues will also be increased by the amounts, if any, transferred during such Fiscal Year or other period from the Rate Stabilization Fund to the Revenue Fund and will be decreased by the amounts, if any, transferred during such Fiscal Year or other period from the Revenue Fund to the Rate Stabilization Fund, pursuant to the Indenture.

Debt Service Payments

The Indenture requires the District to pay all Debt Service Payments directly to the Trustee on the applicable Due Date. The District is required to pay Debt Service Payments without offset or deduction of any kind. “Due Date” means the fifth (5th) business day of the month prior to each Interest Payment Date. See APPENDIX A hereto. See also “Pledge of Net Revenues” above.

The District’s obligation to make Debt Service Payments is a special obligation of the District payable solely from the Net Revenues and other funds provided for in the Indenture. Neither the Bonds nor the obligation of the District to make Debt Service Payments constitutes a debt of the District or of the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory debt limit or restriction or an obligation for which the

District or the State of California is obligated to levy or pledge any form of taxation or for which the District or the State of California has levied or pledged any form of taxation.

Rate Covenant

The District has covenanted in the Indenture that it shall fix, prescribe, revise and collect such rates, fees and charges for the services and facilities furnished by the Wastewater System during each Fiscal Year, which are at least sufficient, after making allowances for contingencies and error in the estimates, to yield Gross Revenues sufficient to pay the following amounts in the following order of priority:

(i) All Operation and Maintenance Expenses estimated by the District to become due and payable in such Fiscal Year;

(ii) All Debt Service Payments and all payments of principal of and interest on any Parity Obligations as they become due and payable during such Fiscal Year, without preference or priority;

(iii) Amounts necessary to bring the amount of funds in the Reserve Fund up to the Reserve Requirement within one year of a draw thereon; and

(iv) All payments required to meet any other obligations of the District which are charges, liens, encumbrances upon, or which are otherwise payable from, the Gross Revenues or the Net Revenues during such Fiscal Year.

In addition, the District shall fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Wastewater System during each Fiscal Year which are sufficient to yield Net Revenues which are at least equal to 125% of the amount described in the clause (ii) above for such Fiscal Year.

For purposes of calculating the interest on any Outstanding Parity Obligations, if interest on any Parity Obligations is reasonably anticipated to be reimbursed to or on behalf of the District by the United States of America, then interest on such Parity Obligations shall be excluded to the extent such interest is reasonably anticipated to be paid or reimbursed by the United States of America, and such reimbursements will not be included as Gross Revenues for purposes of the coverage calculations set forth above.

Reserve Fund

The District has agreed to establish and maintain so long as any Bonds are outstanding a separate fund, to be held by the Trustee for and on behalf of the District, to be known as the Reserve Fund. The Reserve Fund will initially be funded by a reserve fund surety bond policy from the Insurer (the "Reserve Fund Surety Bond") in the initial maximum principal amount of \$_____, subject to reduction and reinstatement in accordance with the terms thereof. The District has pledged and granted a first and exclusive lien on and a security interest in the Reserve Fund to the Trustee for the benefit of the Owners in order to secure the District's obligations to pay the Debt Service Payment scheduled to be paid under the Indenture. The premium on the Reserve Fund Surety Bond, if any, will be fully paid at or prior to the issuance of the Bonds. The Reserve Fund Surety Bond will provide that, upon the later of (i) the Business Day next following the Business day of receipt by the Insurer of a Notice of Nonpayment presented by the Trustee to the Insurer; or (ii) the payment date of the Bonds as

specified in the Notice of Nonpayment, the Insurer will make a deposit of funds with the Trustee, or its successor, in an amount sufficient to pay principal and interest on the Bonds, to the extent of amounts available under the Reserve Fund Surety Bond up to the Policy Limit.

If amounts on deposit in the Reserve Fund are, at any time, less than the applicable Reserve Requirement, such deficiency will be made up by the District from the first available Net Revenues after required payment of Debt Service Payments over a twelve (12) month period, in twelve (12) substantially equal payments, and the Reserve Fund will be valued monthly until amounts on deposit therein equal the Reserve Requirement.

“Reserve Requirement” means, as of any date of calculation by the District, the lesser of (i) 10% of the initial principal amount of the Bonds, (ii) an amount equal to Maximum Annual Debt Service, or (iii) 125% of average annual Debt Service Payments payable under the Indenture. See “APPENDIX A - SUMMARY OF THE INDENTURE - Reserve Fund” herein.

In any case where the Reserve Fund is funded with a combination of cash and the Reserve Fund Surety Bond, the Trustee will deplete all cash balances before drawing on the Reserve Fund Surety Bond. With regard to replenishment, any available moneys provided by the District shall be used first to reinstate the Reserve Fund Surety Bond and second, to replenish the cash in the Reserve Fund. In the event the Reserve Fund Surety Bond is drawn upon, the District shall make payment of interest on amounts advanced under the Reserve Fund Surety Bond after making any Debt Service Payments under the Indenture.

Application of Gross Revenues

Payments from Revenue Fund. The District has covenanted that all Gross Revenues, when and as received, will be received and held by the District in trust for the benefit of Bondholders and payments with respect to Parity Obligations, and will be deposited by the District immediately upon receipt in the Revenue Fund, which the District has covenanted in the Indenture to establish and maintain throughout the term of the Bonds. All Gross Revenues shall be disbursed, allocated and applied solely to the uses and purposes set forth in the Indenture, and shall be accounted for separately and apart from all other money, funds, accounts or other resources of the District.

All Gross Revenues in the Revenue Fund shall be set aside by the District and applied in the following order of priority:

(1) **Operation and Maintenance Expenses.** The District agrees and covenants to pay all Operation and Maintenance Expenses (including amounts reasonably required to be set aside in contingency reserves for Operation and Maintenance Expenses, the payment of which is not then immediately required) from the Revenue Fund as they become due and payable.

(2) **Debt Service Payments.** Debt Service Payments payable pursuant to the Indenture and all other payments relating to principal and interest on or with respect to Parity Obligations, shall be paid in accordance with the terms hereof and of such Parity Obligations, without preference or priority, and in the event of any insufficiency of such moneys, ratably without any discrimination or preference.

(3) **Reserve Funds.** Payments required pursuant to the Indenture, or with respect to Parity Obligations, to replenish debt service reserve funds established for Parity Obligations shall be made in accordance with the terms of the Indenture and such Parity Obligations, without preference or priority, and in the event of any insufficiency of such moneys, ratably without any discrimination or preference.

(4) **General Expenditures/Rate Stabilization Fund.** All Gross Revenues not required to be withdrawn pursuant to the provisions of (1) through (3) above will be used for expenditure for any lawful purpose of the District, including payment of Operation and Maintenance Expenses or payment of any rebate requirement or of any obligation subordinate to the payment of all amounts due under the Indenture or under Parity Obligations. The District may maintain and hold a separate fund to be known as the "Rate Stabilization Fund." From time to time the District may deposit in the Rate Stabilization Fund, from remaining Net Revenues described in this subsection (4) or other available funds of the District, such amounts as the District shall determine. The District may withdraw amounts from the Rate Stabilization Fund (i) for transfer to the Revenue Fund for inclusion in Gross Revenues for any Fiscal Year, or (ii) for any other lawful use of the District. All interest or other earnings upon deposits in the Rate Stabilization Fund shall be withdrawn therefrom and accounted for as Gross Revenues.

Payment of Debt Service Payments. On or before each Due Date, the District will withdraw from the Debt Service Fund an amount, together with the balance then on deposit in the Payment Fund, if any (other than amounts held for the defeasance of Bonds pursuant to the Indenture and any amounts required for payment of principal of or interest on any Bonds which have matured or been called for redemption but which have not yet been presented for payment), equal to the aggregate amount of the Debt Service Payments coming due on the next succeeding Interest Payment Date, and transfer the same to the Trustee for deposit into the Payment Fund on the following dates and in the following amounts:

(1) Interest Component. On or before each Due Date, an amount which is equal to the amount to become due on such Bonds on the next succeeding Interest Payment Date; provided, however, that the District may be entitled to certain credits on such payments as set forth above.

(2) Principal Component. On or before each Due Date, an amount which, together with any moneys already on deposit with the Trustee and available to make such payment, is not less than the entire amount of the next succeeding maturing principal coming due on the Bonds after such date; provided, however, that the District may be entitled to certain credits on such payments as set forth above.

MUNICIPAL BOND INSURANCE

There follows under this caption certain information concerning the terms of the Insurance Policy and the Insurer that has been supplied by the Insurer for inclusion in this Official Statement. No representation is made by the District as to the accuracy, completeness or adequacy of such information, nor as to the absence of material adverse changes in such information subsequent to the date of this Official Statement. The District has not made any independent investigation of the Insurer or the Insurance Policy, and reference is made to the information set forth below and in APPENDIX G hereto for a description thereof.

The following information and the specimen of the Insurance Policy attached as APPENDIX G hereto have been furnished by the Insurer for use in this Official Statement.

Insurance Policy

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

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

Assured Guaranty Municipal Corp.

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

AGM's financial strength is rated "AA-" (stable outlook) by Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") and "Aa3" (on review for possible downgrade) by Moody's Investors Service, Inc. ("Moody's"). An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM's long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AGM on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Current Financial Strength Ratings

On March 20, 2012, Moody's issued a press release stating that it had placed AGM's "Aa3" insurance financial strength rating on review for possible downgrade. On October 30, 2012, Moody's indicated that it anticipated resolving its review during the first half of November 2012. AGM can give no assurance as to any further ratings action that Moody's may take. Reference is made to the press release, a copy of which is available at www.moodys.com for the complete text of Moody's comments.

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

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

Capitalization of AGM

At September 30, 2012, AGM's consolidated policyholders' surplus and contingency reserves were approximately \$3,263,902,433 and its total net unearned premium reserve was approximately \$2,153,794,346, in each case, in accordance with statutory accounting principles.

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

Incorporation of Certain Documents by Reference

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

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

All information relating to AGM included in, or as exhibits to, documents filed by AGL pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, after the filing of the last document referred to above and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials

incorporated by reference are available over the internet at the SEC's website at <http://www.sec.gov>, at AGL's website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Municipal Corp.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

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

Miscellaneous Matters

AGM or one of its affiliates may purchase a portion of the Bonds or any uninsured bonds offered under this Official Statement and such purchases may constitute a significant proportion of the bonds offered. AGM or such affiliate may hold such Bonds or uninsured bonds for investment or may sell or otherwise dispose of such Bonds or uninsured bonds at any time or from time to time.

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

THE DISTRICT AND THE WASTEWATER SYSTEM

General Information

The District was incorporated in 1940 and operates as a special district and public agency under the County Sanitation District Act, (California Health and Safety Code Section 4700 *et seq.*). The District serves approximately 15,830 acres in the northern central portion of the County in the area between the cities of Bakersfield and Shafter. The territory served by the District is comprised of lands within the unincorporated area of the County and portions of the City of Bakersfield. Approximately 46% of the District is developed, primarily with residential housing. The remainder of the District is either agricultural land or undeveloped land suitable for development.

The District is governed by a five person board of directors elected at large. The current Board of Directors is as follows:

<u>Name</u>	<u>Term Expires</u>
Gary McKibbin, President	2014
Steve Ruettgers, Vice President	2014
Sandra Murphy, Director	2014
Sam Scoles, Director	2016
Steve Shoffner, Director	2016

The District is the sole provider of wastewater service for residential, commercial and industrial enterprises within its service area. Approximately 96% of District connections are from residential users. The Wastewater System is under the direction of Mr. LaRue Griffin, the General Manager of the District, and is operated by a staff of 11 full-time employees

Insurance

The District participates in the pooled liability program and primary insurance program from the California Sanitation Risk Management Authority. The District does not maintain earthquake coverage. The pooled liability coverage carries a \$2,500-\$10,000 deductible per occurrence depending on the occurrence and applicable policy. Insurance is provided through Alliant Insurance Services. The District's insurance program may change in the future due to insurance market conditions and the availability of insurance to public entities.

Retirement Plan and Other Post-Employment Benefits

The District contributes to the Kern County Employees' Retirement Association (KCERA), a cost-sharing multiple-employer defined benefit pension plan. KCERA provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Under State law, the County Board of Supervisors has the authority to establish and amend benefit provisions. Plan members are required to contribute at an actuarially rate. The current rate is currently 32.31% of annual covered payroll. The District's contributions to the plan for the Fiscal Years ended June 30, 2012, 2011 and 2010 were \$232,787, \$246,610 and \$208,943, respectively, which were equal to the required contributions.

The District's post-employment benefits plan is a single-employer, defined benefit healthcare plan administered by the District. Four eligible participants received benefits in 2012 and are currently receiving benefits in 2013. The plan provides medical insurance benefits to eligible employees and their spouses. The District's Board of Directors has the authority to establish and amend benefit provisions and to establish contribution requirements for plan members. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to pre-fund benefits as determined annually by the District's Board of Directors. For the Fiscal Years ended June 30, 2012, 2011 and 2010, the District contributed \$17,451, \$14,002 and \$14,002, respectively, for current premiums.

The District's annual other post-employment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. For the Fiscal Years ended June 30, 2012, 2011 and 2010, the District's annual OPEB cost was \$57,176, \$55,357 and \$51,090, respectively, with the percentage of annual OPEB cost contributed at 119.9%, 71.4% and 27.4%, respectively. As of July 1, 2011, the most recent actuarial valuation date, the plan was 20% funded. The actuarial accrued liability for benefits was \$128,142, and the actuarial value of assets was \$25,804, resulting in an unfunded actuarial accrued liability (UAAL) of \$102,338.

The District's Financial Report for the fiscal year ended June 30, 2012, and in particular Notes 6 and 9 thereto, includes additional information on the District's pension

liabilities and available funding and postemployment liabilities and funding. See APPENDIX C hereto.

Wastewater Treatment Facilities

Wastewater is transported to the District’s treatment facilities via the District’s collection system, consisting of approximately 177 miles of collection lines and 4 lift stations to a wastewater treatment plant. The Wastewater System has an average wastewater treatment demand of approximately 6 million-gallons per day (“mgd”). The current treatment capacity of the Wastewater System is 7.5 mgd. The District currently expects the capacity of the treatment plant to be sufficient for District needs through 2025.

Treated effluent is stored in four storage ponds and is applied to agricultural land owned and operated by Sill Properties, LLC and land owned by the District. The sludge is treated and disposed of on District owned land.

The following table sets forth the historical wastewater flow for the Wastewater System.

TABLE 1
NORTH OF RIVER SANITARY DISTRICT NO. 1
HISTORICAL WASTEWATER FLOW
(Fiscal Years 2007-08 through 2011-12)
(in millions of gallons)

Month	2007-08	2008-09	2009-10	2010-11	2011-12	Monthly Average
July	169.85	166.64	185.48	177.55	178.49	175.60
August	173.43	171.34	188.56	175.08	180.60	177.80
September	165.33	164.17	187.46	166.78	175.91	171.93
October	167.64	168.90	190.36	174.86	181.58	176.67
November	159.69	160.98	178.14	161.89	169.43	166.03
December	164.43	166.24	180.72	173.90	170.17	171.09
January	161.24	161.15	161.99	171.75	165.11	164.25
February	144.02	149.03	148.10	154.15	158.17	150.69
March	159.28	173.81	163.22	173.73	171.25	168.26
April	154.03	171.25	159.28	164.98	164.75	162.86
May	160.47	178.75	168.63	169.86	168.92	169.33
June	157.57	178.09	171.44	171.43	168.08	169.32
Annual Average	161.42	167.53	173.62	169.66	171.04	168.65

Source: The District.

Environmental Compliance

The Wastewater System is subject to regulatory requirements under the Federal Water Pollution Control Act as amended (the “Clean Water Act”). The regulatory requirements are administered by the Environmental Protection Agency (the “EPA”) through the California Regional Water Quality Control Board, Central Coast Region. Regulations of these agencies deal primarily with the quality of effluent which may be discharged from wastewater treatment facilities, the recycling of residual solids generated by wastewater

treatment plants, the reuse of reclaimed water for irrigation and industrial uses to conserve potable water, and the nature of waste material (particularly industrial waste) discharged into the Wastewater System.

To comply with federally mandated effluent quality and disposal criteria, the District must operate its facilities according to discharge limitations and reporting requirements set forth in the Waste Discharge Requirements discharge permit (the “WDR Permit”).

The District is complying with all terms and conditions of the August 1, 2009 permit until such time as the permit is renewed. The District currently estimates that the additional capital improvements needed to implement the requirements of the current WDR Permit would cost approximately between \$40 million and \$50 million.

Future Capital Plans

The District anticipates the following capital improvement projects for the next 5 years, at a current estimated cost of approximately \$41 million:

- construction of an additional 6 MGD treatment facility
- replacement of approximately 1-mile of force main
- improvements to existing lift stations

City of Shafter Cost Sharing

The District participates in certain cost sharing arrangements with the City of Shafter (“Shafter”). Under various arrangements, Shafter reimburses the District for its calculated share of District debt service obligations (payments due in April and October), treatment plant operating expenses (payments due in July) and certain treatment plant fixed assets additions (payments due in April and October), in return for the District providing wastewater treatment and disposal and operation and maintenance of its facilities. Amounts received by the District under these arrangements for the Fiscal Years ended June 30, 2012, 2011 and 2010 are set forth in the table below. In Fiscal Year 2011-12, these reimbursements accounted for approximately 33% of the District’s debt service obligations, and 25% of the treatment plant operation costs.

**TABLE 2
NORTH OF RIVER SANITARY DISTRICT NO. 1
CITY OF SHAFTER COST SHARING REIMBURSEMENTS
(Fiscal Years 2009-10 through 2011-12)**

	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>
Debt Service Participation	\$360,418	\$361,919	\$362,154
Treatment Plant cost reimbursements	222,784	258,020	223,674
Additional pipeline capacity reimbursements	<u>70,096</u>	<u>70,096</u>	<u>70,096</u>
Total	\$653,298	\$690,035	\$655,924

Source: The District.

System Users; Rates and Charges

Service Charges. The following table illustrates the total number of equivalent residential units (“ERU”s) as of July 1 of each year for the past ten years. An ERU reflects the number of service units represented by a single connection when corrected for flow and effluent strength. The District charges sewer service fees on an ERU basis. However, since the District’s customer base is approximately 96% residential, and consequently has an effective one-to-one relationship between connections and ERU’s, and because the District’s non-residential connections do not generally discharge materially heavy or high-strength flows, the total number of ERU’s is within approximately 4% of the total number of connections.

The District establishes rates by resolution. Neither the District nor the Wastewater System is subject to the jurisdiction of, or regulation by, the California Public Utilities Commission or any other regulatory body in connection with the establishment of charges and fees related to the Wastewater System. See “RISK FACTORS – Proposition 218” herein for a discussion of the treatment of the District’s rates and charges in light of Proposition 218. It can terminate service to delinquent customers, require full payment of delinquent accounts, and impose reconnection fees to resume service.

The District staff periodically determines the accuracy of the Wastewater System rate structure after full consideration of expected operations, maintenance and capital costs. The District performed a rate study in 2007 which included an automatic escalator to the rate structure to increase/decrease according to the Los Angeles, Riverside and Orange County All Items Consumer Price Index (CPI), which escalator expired June 30, 2012. An updated rate study is expected to be performed at the beginning of the 2013 calendar year.

**TABLE 3
NORTH OF RIVER SANITARY DISTRICT NO. 1
EQUIVALENT RESIDENTIAL UNITS SERVED
(Fiscal Years 2003-2013)**

<u>Fiscal Year</u>	<u>Total ERU’s</u>	<u>Percent Change</u>
2004	13,242	--
2005	14,190	6.7%
2006	15,205	6.7
2007	15,971	4.8
2008	16,181	1.3
2009	16,214	0.2
2010	16,433	1.3
2011	16,614	1.1
2012	16,585	(0.2)
2013 ⁽¹⁾	16,991	2.4

Source: The District.

(1) Estimate.

The following Table describes the current schedule of wastewater rates and charges of the District in effect on July 1, 2012, pursuant to Board action taken on April 17, 2012. A

proposed rate increase is expected upon completion of a sewer rate study update expected to be completed at the beginning of the 2013 calendar year.

TABLE 4
NORTH OF RIVER SANITARY DISTRICT NO. 1
WASTEWATER SYSTEM RATE HISTORY
(Rate per Year)

<u>Fiscal Year</u>	<u>Rate per Residential Unit</u>	<u>Rate per Multiple Unit</u>
2003-04	\$129.00	\$91.06
2004-05	132.00	95.40
2005-06	135.00	97.57
2006-07	138.00	99.74
2007-08	204.93	148.11
2008-09	211.69	153.00
2009-10	211.69	153.00
2010-11	214.65	155.14
2011-12	218.62	158.01
2012-13	218.62	158.01

Source: The District.

The following Table sets forth a comparison of the District's Wastewater System rates in comparison to those of neighboring agencies.

TABLE 5
NORTH OF RIVER SANITARY DISTRICT NO. 1
MONTHLY BILL COMPARISON
(As of December 1, 2012)

<u>Agency</u>	<u>Monthly Rate</u>
City of Bakersfield	\$17.08
City of Taft	20.57
District	18.22
City of Shafter	22.40

Source: The District.

Largest Users

The following table shows the top ten users of the Wastewater System based on revenues during Fiscal Year 2011-12. The top ten users accounted for approximately 6.8% of Revenues for the year.

TABLE 6
NORTH OF RIVER SANITARY DISTRICT NO. 1
MONTHLY BILL COMPARISON
(Fiscal Year 2011-12)

<u>Customer</u>	<u>Type of Property</u>	<u>Wastewater Revenues</u>	<u>% of Revenues⁽¹⁾</u>
Martinov Family Trust	Multi-Family Res.	\$53,577	1.47%
Monterey Bakersfield LP	Multi-Family Res.	37,984	1.04
Giamela William & Patricia	Multi-Family Res.	25,342	0.70
Elliott J Tr & Martinov V M	Multi-Family Res.	24,865	0.68
Mobiletown Co LLC	Multi-Family Res.	22,401	0.61
New Steven T & Kimberly S	Commercial	18,140	0.50
North Park Apts Housing Corp	Multi-Family Res.	16,858	0.46
Sri Sai Hospitality Inc	Multi-Family Res.	16,653	0.46
Motel 6 Operating LP	Hotel	16,021	0.44
Opportunity Builders	Multi-Family Res.	<u>15,229</u>	<u>0.42</u>
Total:		\$247,070	6.78%

Source: The District.

(1) Based on total Fiscal Year 2011-12 Wastewater System Revenues of \$3,645,072.

Development Impact Fees

The District charges development impact fees on a per-connection basis and sewer service fees on an ERU basis. A connection fee study update is expected to be completed by the end of the 2012 calendar year. Connection fees are billed and paid prior to the issuance of any building permit for the construction of new residential, commercial or industrial structures in the District. The following table shows a six-year history of the District's revenues from connection fees.

TABLE 7
NORTH OF RIVER SANITARY DISTRICT NO. 1
NEW CONNECTIONS AND DEVELOPMENT IMPACT FEES
(Fiscal Years 2006-07 through 2012-13)

<u>Fiscal Year</u>	<u>New Connections</u>	<u>Fees</u>
2006-07	236	\$863,466
2007-08	111	404,048
2008-09	247	903,249
2009-10	143	523,835
2010-11	103	376,348
2011-12	309	1,127,938
2012-13 ⁽¹⁾		224,424

Source: The District.

(1) As of October 31, 2012.

District Billing Practices

The District's service charges are billed and collected through the County in conjunction with the collection of *ad valorem* property taxes. The County includes District service charges on the property tax bills which the County sends to property owners within the District's service area. In January and May of each year, the County transmits the receipts to the District. If the County is unable to collect on an individual tax bill, the County will not advance the District its share of that particular bill. If there is a partial payment of an individual tax bill, the District is paid its percentage share of the partial payment percentage. Currently, approximately 4% of accounts are considered delinquent by the District.

Governmental facilities located in the District are billed directly by the District, usually on an annual basis.

Investments

The District invests its funds pursuant to its Statement of Investment Policy (the "Investment Policy") and as part of its investment portfolio. Pursuant to the Investment Policy, the District will manage all funds under the control of the District Treasurer in a prudent manner, consistent with the following objectives: first, to safeguard the principal of the funds; second, to meet the liquidity needs of the District; and third, to achieve a return on the funds.

As of October 31, 2012, the District has invested funds as set forth in the table below.

TABLE 8
NORTH OF RIVER SANITARY DISTRICT NO. 1
INVESTMENT PORTFOLIO SUMMARY
(As of October 31, 2012)

<u>Type of Investment</u>	<u>Market Value</u>	<u>% of Total Portfolio</u>
Cash in County Treasury	\$20,270,346	95.25%
U.S. Bank	996,743	4.68
Cash ⁽¹⁾	<u>14,869</u>	<u>0.07</u>
Total:	\$21,281,958	100.00%

Source: The District.

(1) Includes cash in checking account and petty cash.

Outstanding and Anticipated Indebtedness

The District's payments of principal and interest on the Series 2012 Bonds are payable on a parity basis with the District's obligations under an outstanding loan (the "State Loan") made by the State Water Resources Control Board (the "SWRCB") under its State Revolving Fund Loan Program, pursuant to a Loan Contract between the SWRCB and the District, dated April 17, 1998, as such contract may be amended from time to time (Contract No. 7-811-550-0., governing Loan No. C-06-4337-110). Under the State Loan, the District was authorized to borrow up to \$13,217,689 at an interest rate of 2.6% per annum, payable in 20 annual installments of \$837,999, with final payment due on August 30, 2019. The District borrowed \$12,630,359 under the State Loan, of which \$5,300,590 remains outstanding.

The District currently anticipates that capital needs of the Wastewater System for the next five years will be paid from Wastewater System revenues, capital reserves and additional indebtedness.

Reserves

The District adopted a Statement of Reserve Fund Policy (the "Reserve Policy") in 2011. The Reserve Policy established a target reserve of \$4,075,000, which was funded in 2010 and currently remains at that level. While the reserves may be allocated by the District to pay debt service on the Bonds, they are not pledged for such purpose. Such reserves may be utilized at any time for lawful expenditures by the District, and no assurance can be made that the reserves will be available to pay debt service on the Bonds. The Reserve Policy is subject to change by future Board action.

Property Tax Revenues; Assessed Valuations

The levy and collection of *ad valorem* property taxes provides a source of funds for the District. Property taxes received by the District represent the District's share of the \$1 per \$100 county-wide *ad valorem* property tax levy collected by the County. The taxes collected are allocated to taxing agencies within the County, including the District, on the basis of a formula established by State law enacted in 1979. Under this formula, the County and all

other taxing entities receive a base year allocation plus an allocation on the basis of growth in assessed value (new construction, change of ownership and inflation) prorated among the jurisdictions which serve the tax rate areas within which the growth occurs. Tax rate areas are specifically-defined geographic areas which were developed to permit the levying of taxes for less than county-wide or less than city-wide special districts.

There can be no assurance that the allocation formula currently established by State law will continue in the future. If the formula is changed in the future, it could have a material adverse effect on the receipt of property tax revenue of the District. The District does not anticipate, however, that potential changes in the allocation formula would have a material impact on its ability to meet its obligations. For further information concerning the continued receipt by the District of a share of the 1% county-wide *ad valorem* property tax, see “RISK FACTORS – Impact of State Budget” herein.

The County has adopted the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the “Teeter Plan”), as provided for in Section 4701 et seq. of the State Revenue and Taxation Code. Under the Teeter Plan, each participating local agency levying property taxes in the County receives the amount of uncollected taxes credited to its fund in the same manner as if the amount credited had been collected. In return, the County receives and retains delinquent payments, penalties and interest, as collected, that would have been due to the local agency. However, the District has elected not to participate in the Teeter Plan.

The following table provides a record of secured assessed valuation and tax collections within the District and the amount the District received as its share of the 1% property tax during the six most recent Fiscal Years.

TABLE 9
NORTH OF RIVER SANITARY DISTRICT NO. 1
SECURED ASSESSED VALUATION AND TAX COLLECTION
(Fiscal Years 2007-08 through 2012-13)

<u>Fiscal Year</u> <u>(As of June 30)</u>	<u>Total Secured</u> <u>Assessed Valuation</u> <u>Within District</u>	<u>District Property</u> <u>Tax Revenue¹⁾</u>
2008	\$2,564,904,317	\$219,541
2009	2,661,679,913	214,764
2010 ⁽¹⁾	2,283,852,965	163,823
2011	2,280,313,583	174,804
2012	2,210,426,634	167,755
2013 ⁽²⁾	2,239,401,988	175,000

Source: County of Kern; District audited financial statements.

(1) See “RISK FACTORS – Impact of State Budget” herein for a discussion of recent reductions in property tax receipts by the District in connection with Proposition 1A.

(2) Estimated.

Accounting; Financial Statements

The District segregates each distinct function in order to utilize the special district accounting systems as prescribed by the Controller of the State of California. Each function, using its own system of operating accounts, records the financial transactions in accordance with generally accepted accounting principles as applicable to governmental units. The accrual method of accounting is employed.

The District's financial statements are audited by Daniells, Phillips, Vaughan & Bock, Certified Public Accountant, Bakersfield, California. The auditor has not reviewed such statements in connection with their inclusion in this Official Statement, nor has the District requested such a review. Selected information from the aforementioned audited financial statements has been used to prepare the following three-year comparative summary of revenues and expenses. The results presented in the following summary are qualified in their entirety by reference to the respective annual consolidated audited financial statements of the District, including the notes thereto. Copies of the audited financial statements for the District's other Fiscal Years can be obtained at the office of the General Manager.

The following table illustrates the District's audited balance sheet as of June 30 for Fiscal Years 2009-10 through 2011-12.

TABLE 10
NORTH OF RIVER SANITARY DISTRICT NO. 1
BALANCE SHEET
(Fiscal Years 2009-10 through 2011-12)

	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>
ASSETS:			
Current Assets:			
Cash and cash equivalents	\$19,397,424	\$20,135,228	\$21,269,625
Accounts receivable	307,701	258,035	188,311
Accrued interest receivable	57,457	30,833	32,385
Prepaid expenses	49,119	38,780	50,464
Total Current Assets	19,811,701	20,462,876	21,540,785
Fixed Assets:			
Property and Equipment	27,563,132	27,187,402	26,707,367
Other Assets:			
Investments	164,712	108,337	813,305
Total Assets	\$47,539,545	\$47,758,615	\$49,061,457
LIABILITIES AND NET ASSETS:			
Current Liabilities:			
Current maturities of long-term debt	\$1,268,880	\$1,204,557	\$1,221,851
Accounts payable	85,957	124,360	233,302
Accrued interest payable	225,637	208,622	190,966
Accrued other post-employment benefits	37,088	52,898	11,211
Compensated absences payable	243,294	226,669	133,810
Total Current Liabilities	1,860,856	1,817,106	1,791,140
Long-term Debt, less current maturities	15,614,349	14,510,969	13,289,116
Net Assets			
Invested in capital assets, net of related debt	10,679,903	11,471,876	12,196,400
Unrestricted			
Designated	13,417,275	17,398,533	17,398,533
Other	5,967,162	2,560,131	4,386,268
Total Net Assets	30,064,340	31,430,540	33,981,201
Total Liabilities and Net Assets	\$47,539,545	\$47,758,615	\$49,061,457

Source: District Financial Reports.

Historical and Projected Operating Results and Debt Service Coverage

The table below sets forth the District's historical and projected operating results for the Wastewater System, and resulting projected debt service coverage for the Fiscal Years ending June 30, 2010 through June 30, 2017.

TABLE 11
NORTH OF RIVER SANITARY DISTRICT NO. 1
HISTORICAL AND PROJECTED OPERATING RESULTS AND DEBT SERVICE COVERAGE
(Fiscal Year Ending June 30)

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
REVENUE⁽¹⁾								
Service charges	\$4,158,129	\$4,267,422	\$4,311,045	\$4,440,376	\$4,573,587	\$4,710,795	\$4,852,119	\$4,949,161
Property taxes	523,835	376,348	1,127,938	513,749	1,252,946	1,278,005	1,303,565	1,329,636
Interest income	163,823	174,804	167,755	165,434	170,397	175,509	180,774	184,390
Other income	286,206	149,786	165,434	39,068	40,240	41,447	42,691	43,544
Shafter cost sharing	39,792	38,655	39,068	655,924	675,602	695,870	716,746	731,081
	653,298	690,035	655,924	165,434	170,397	175,509	180,774	184,390
TOTAL REVENUE	5,825,083	5,697,050	6,467,164	5,982,306	6,885,560	7,079,597	7,279,205	7,424,789
OPERATING EXPENSES⁽¹⁾								
Sewage treatment and disposal	920,519	1,203,219	1,169,400	1,192,788	1,216,644	1,240,977	1,265,796	1,291,112
Sewage collection	611,169	873,125	589,083	600,865	612,882	625,140	637,642	650,395
General and administration	636,491	606,702	528,724	539,298	550,084	561,086	572,308	583,754
TOTAL OPERATING EXPENSES	2,168,179	2,683,046	2,287,207	2,332,951	2,379,610	2,427,203	2,475,746	2,525,261
NET REVENUE FOR DEBT SERVICE	3,656,904	3,014,004	4,179,957	3,649,355	4,505,950	4,652,394	4,803,459	4,899,528
DEBT SERVICE								
Bonds ⁽³⁾	976,375	975,280	977,467	977,997	977,257	879,228	883,640	881,845
SWR Revolving Loan	837,999	837,999	837,999	837,999	837,999	837,999	837,999	837,999
TOTAL DEBT SERVICE	1,814,374	1,813,279	1,815,466	1,815,996	1,815,256	1,717,227	1,721,639	1,719,844
TOTAL NET REVENUE AFTER D/S⁽⁴⁾	\$1,842,530	\$1,200,725	\$2,364,491	\$1,833,359	\$2,690,694	\$2,935,167	\$3,081,820	\$3,179,684
DEBT SERVICE COVERAGE⁽⁴⁾	2.02	1.66	2.30	2.01	2.48	2.71	2.79	2.85

Source: The District; Brandis Tallman LLC (with respect to debt service numbers).

- (1) Assumes revenues for Fiscal Year 2012/13 remain flat, a 3% increase in Fiscal Years 2013/14 through 2015/16 due to projected rate increase and increased capacity from capital improvements, and a 2% increase thereafter. Assumes 2% growth in connections from Fiscal Year 2013/14 through 2016/17. See "System Users, Rates and Charges" above.
- (2) Excludes depreciation. General expenses are projected to increase by 2% annually.
- (3) Reflects debt service on the Prior Obligations through Fiscal Year 2012/13, and debt service on the Bonds thereafter. Preliminary, subject to change for Fiscal Years 2013/14 through 2016/17.
- (4) Preliminary, subject to change for Fiscal Years 2013/14 through 2016/17.

RISK FACTORS

The following factors, along with other information in this Official Statement, should be considered by potential investors in evaluating the risks in the purchase of the Bonds.

General

Payment of principal of and interest on the Bonds depends upon the revenues derived from operation of the Wastewater System. Some of the events which could affect the revenues received by the Wastewater System are set forth below. The following discussion of risks is not meant to be an exhaustive list of the risks associated with the purchase of the Bonds and the order in which the risks are discussed does not necessarily reflect the relative importance of the various risks.

Limited Obligations

The Bonds are limited obligations of the District and are not secured by a legal or equitable pledge or charge or lien upon any property of the District or any of its income or receipts, except the Net Revenues. The District is obligated under the Indenture to make debt service payments solely from Net Revenues. There is no assurance that the District can succeed in operating the Wastewater System such that the Net Revenues in the future will be sufficient for that purpose.

Wastewater System Demand and Growth

There can be no assurance that the local demand for the services provided by the Wastewater System will be maintained at levels described in this Official Statement under the heading "THE DISTRICT AND THE WASTEWATER SYSTEM." Reduction in the level of demand could require an increase in rates or charges in order to produce Net Revenues sufficient to comply with the District's rate covenant in the Indenture. Such rate increases could increase the likelihood of nonpayment, and could also further decrease demand. There can be no assurance that any other entity with regulatory authority over the Wastewater System will not adopt further restrictions on operation of the Wastewater System.

Wastewater System Expenses

There can be no assurance that the District's expenses for the Wastewater System will be consistent with the levels described in this Official Statement. Changes in technology, new regulatory requirements, increases in the cost of energy or other expenses would reduce Net Revenues, and could require substantial increases in rates or charges in order to comply with the rate covenant in the Indenture. Such rate increases could increase the likelihood of nonpayment, and could also decrease demand.

Environmental Laws and Regulations

The Wastewater System is subject to a wide variety of local, State, and federal health and environmental laws. Among the types of regulatory requirements faced by such facilities are air and water quality requirements. Such regulations, as they may be from time to time amended or subsequently enacted could affect the Net Revenues available to make the debt service payments on the Bonds.

The kind and degree of wastewater treatment which is effected through the Wastewater System is regulated, to a large extent, by the federal government and the State of California. Treatment standards are set forth in federal and state law control the operations of the Wastewater System and mandate its use of technology. In the event that the federal government, acting through the Environmental Protection Agency, or the State of California, acting through the Department of Health Services, or additional federal or state legislation, should impose stricter water quality standards upon the Wastewater System, the District's expenses could increase accordingly and rates and charges would have to be increased to offset those expenses. It is not possible to predict the direction federal or state regulation will take with respect to drinking water quality standards, although it is likely that both will impose more stringent standards with attendant higher costs.

Parity Obligations

Although the District has covenanted not to issue additional obligations payable from Net Revenues senior to the Debt Service Payments, the Indenture permits the issuance by the District of certain indebtedness which may have a lien upon the Net Revenues which is on a parity basis to the lien which secures the Debt Service Payments, if certain coverage tests are met (see "THE BONDS – Issuance of Parity Obligations" herein). These coverage tests involve, to some extent, projections of Net Revenues. If such indebtedness is issued or incurred, the debt service coverage for the Debt Service Payments securing the Bonds will be diluted below what it otherwise would be subject to under the coverage tests. Moreover, there is no assurance that the assumptions which form the basis of such projections, if any, will be actually realized subsequent to the date of such projections. If such assumptions are not realized, the amount of future Net Revenues may be less than projected, and the actual amount of Net Revenues may be insufficient to provide for the payment of the Debt Service Payments and such additional indebtedness.

Proposition 218

On November 5, 1996, the voters of the State approved Proposition 218, the "Right to Vote on Taxes Act." Proposition 218 added Articles XIII C and XIII D to the State Constitution, which contain a number of provisions affecting the ability of the District to levy and collect both existing and future taxes, assessments, fees and charges. Proposition 218 also extends the initiative power to reducing or repealing any local taxes, assessments, fees and charges. This extension of the initiative power is not limited to taxes, assessments, fees and charges imposed on or after November 6, 1996, the effective date of Proposition 218, and could result in retroactive repeal or reduction in any existing taxes, assessments, fees or charges, except those which are pledged to the repayment of debt. If such a repeal or reduction in District fees or charges were to occur, and it was held that any such taxes, assessments, fees or charges were not pledged to any debt repayment, the District's ability to make Debt Service Payments could be adversely affected.

In addition, while the matter is not free from doubt, Proposition 218 imposed restrictions on the levy of charges for "property-related services." In July 2006 the California Supreme Court confirmed that a public agency's charges for ongoing water delivery are "fees and charges" within the meaning of Proposition 218. As a result, voters within the boundaries of the District could adopt an initiative measure that reduced or repealed water rates and charges levied by the District, although it is not clear (and has not been determined by State courts) whether such action would be enforceable where such fees and charges are pledged to the repayment of indebtedness.

The District believes that its fees for wastewater service will not be adversely affected by the application of the procedural requirements of Proposition 218, and that Proposition 218 would not have any immediate adverse effect on its ability to operate its Wastewater System. However, there can be no assurance of the availability of remedies to protect fully the interest of the holders of the Bonds.

Constitutional Limit on Appropriations, Fees and Charges

If a portion of the Wastewater System rates or connection charges were determined by a court to exceed the reasonable costs of providing service, any fee which the District charges may be considered to be a “special tax,” which under Articles XIII A or XIII D of the California Constitution must be authorized by a two-thirds vote of the affected electorate. This requirement is applicable to the District’s rates for service provided by the Wastewater System. The reasonable cost of service provided by the Wastewater System has been determined by the State Controller to include depreciation and allowance for the cost of capital improvements. In addition, the State courts have determined that fees such as connection fees (capacity charges) will not be special taxes if they approximate the reasonable cost of constructing Wastewater System improvements contemplated by the local agency imposing the fee. Such court determinations have been codified in the Government Code of the State of California (Section 66000 *et seq.*).

Under Article XIII B of the California Constitution, state and local government entities have an annual “appropriations limit” which limits their ability to spend certain moneys called “appropriations subject to limitation,” which consists of tax revenues, certain state subventions and certain other moneys, including user charges to the extent they exceed the costs reasonably borne by the entity in providing the service for which it is levying the charge. In general terms, the “appropriations limit” is to be based on certain Fiscal Year 1978/79 expenditures, and is to be adjusted annually to reflect changes in the consumer price index, population and services provided by these entities. Among other provisions of Article XIII B, if an entity’s revenues in any year exceed the amount permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

The District is of the opinion that the rates and use charges imposed by the District in connection with the Wastewater System do not exceed the costs it reasonably bears in providing such services.

Limited Recourse on Default

If the District defaults on its obligation to make Debt Service Payments, the Trustee has the right to accelerate the total unpaid principal amounts of the Debt Service Payments. However, in the event of a default and such acceleration there can be no assurance that the District will have sufficient Net Revenues to pay the accelerated Debt Service Payments.

Limitations on Remedies Available; Bankruptcy

The enforceability of the rights and remedies of the Owners and the obligations of the District may become subject to the following: the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors’ rights generally, now or hereafter in effect; equitable principles which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Federal Constitution; and the

reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State and its governmental bodies in the interest of servicing a significant and legitimate public purpose. Bankruptcy proceedings, or the exercising of powers by the federal or State government, if initiated, could subject the Owners to judicial discretion and interpretation of their rights in bankruptcy or otherwise and consequently may entail risks of delay, limitation, or modification of their rights.

No Obligation to Tax

The obligation of the District to pay the Debt Service Payments does not constitute an obligation of the District for which the District is obligated to levy or pledge any form of taxation or for which the District has levied or pledged any form of taxation. The obligation of the District to pay Debt Service Payments does not constitute a debt or indebtedness of the State or any of its political subdivisions, within the meaning of any constitutional or statutory debt limitation or restriction.

Change in Law

In addition to the other limitations described herein, the State electorate or Legislature could adopt a constitutional or legislative property tax decrease or an initiative with the effect of reducing revenues payable to or collected by the District. There is no assurance that the State electorate or Legislature will not at some future time approve additional limitations that could have the effect of reducing the Net Revenues and adversely affecting the security of the Bonds.

Impact of State Budget

The State is experiencing serious budgetary shortfalls for the current and immediately succeeding Fiscal Years. The District cannot predict what actions will be taken in the future by the State Legislature and the Governor to deal with changing State revenues and expenditures. The District cannot predict what measures may be proposed or implemented for the current Fiscal Year or in the future. Given the magnitude of the State's budgetary deficit, it is possible that future legislation will impact revenues of local agencies. These developments at the State level will most likely adversely affect local governments.

In response to the shift of local agency revenues to school funding in Fiscal Years 2004/05 and 2005/06, Proposition 1A, entitled "Protection of Local Government Revenues," was approved on the November 2, 2004 ballot ("Proposition 1A"). Proposition 1A amended the California Constitution to, among other things, prohibit the shift of property tax revenues from cities, counties and special districts, except to address a "severe state financial hardship" (and only then if (x) such amounts were agreed to be repaid with interest within three years, (y) the State had repaid any other borrowed amounts, and (z) such borrowing could not occur more often than twice in ten years). In 2009 the State Legislature exercised its authority and suspended the protection of Proposition 1A for Fiscal Year 2009/10, and authorized approximately \$1.9 billion to be borrowed from local governments through the suspension of Proposition 1A. Each county auditor reduced by 8% the *ad valorem* property tax revenue that was distributed to each city, county, and special district for Fiscal Year 2008/09, and transferred such revenues to educational funds. The District and other local governments elected to participate in a securitization financing offered by a joint powers authority in which they received, up front, the property tax revenues being borrowed by the State. The State has

since repaid such borrowing, and as a result the State could again suspend the protection of Proposition 1A.

The District currently does not anticipate that the State budget problems will materially adversely impact the operation of its water operations or its ability to pay Debt Service Payments or any of its other obligations as when due.

Secondary Market for Bonds

There can be no guarantee that there will be a secondary market for the Bonds or, if a secondary market exists, that any Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then-prevailing circumstances. Such prices could be substantially different from the original purchase price.

Loss of Tax Exemption

As discussed in this Official Statement under the caption "TAX MATTERS," interest on the Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the Bonds were issued, as a result of future acts or omissions of the District or authority in violation of their respective covenants in the Indenture. Should such an event of taxability occur, the Bonds are not subject to a special redemption and will remain outstanding until maturity or until prepaid under one of the other redemption provisions contained in the Indenture.

Legislation affecting the tax exemption of interest on the Bonds may be considered by the United States Congress and the State legislature. Federal and state court proceedings and the outcome of such proceedings could also affect the tax exemption of interest on the Bonds. No assurance can be given that legislation enacted or proposed, or actions by a court, after the date of issuance of the Bonds will not have an adverse effect on the tax exemption of interest on the Bonds or the market value of the Bonds.

IRS Audit of Tax-Exempt Issues

The IRS has initiated an expanded program for the auditing of tax-exempt 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 obligations).

Insurer Default

The Insurer. In the event that the District fails to provide funds to make payment of the principal of and interest on the Bonds when the same shall become due, any owner of such Bonds shall have a claim on the Insurance Policy for such payments. However, in the event of any acceleration of the due date of such principal by reason of mandatory redemption resulting from default or otherwise, the payments guaranteed under the Insurance Policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration. The Insurance Policy does not insure the payment of any premium payable upon the redemption of the Bonds.

Purchasers of the Bonds should also note that, while the Insurance Policy will insure payment of the principal amount (but not any premium) paid to any owner of the Bonds in connection with the mandatory or optional redemption of any Bond which is recovered from such owner as a voidable preference under applicable bankruptcy law, such amounts will be repaid by the Insurer to the Owner only at the times and in the amounts as would have been due absent such redemption unless the Insurer chooses to pay such amount at an earlier date or dates.

So long as the Insurer performs its obligations under the Insurance Policy, the Insurer shall be deemed to be the sole holder of the Bonds insured by it for the purpose of exercising any voting right or privilege or giving any consent of direction or taking any other action that the Owners of such Bonds are entitled to take pursuant to the Indenture pertaining to defaults and remedies, and the duties and obligations of the Trustee.

In the event that the Insurer is unable to make payments of principal of and interest on the Bonds as such payments become due, the Bonds are payable solely from moneys received by the Trustee pursuant to the Indenture.

In the event that the Insurer is required to pay principal of or interest on the Bonds, no representation or assurance is given or can be made that such event will not adversely affect the market price for or marketability of the Bonds.

The long-term ratings on the Bonds are dependent, in part, on the claims paying ability or financial strength ratings, as applicable, of the Insurer. The Insurer's current claims paying ability or financial strength ratings are predicated upon a number of factors which could change over time and could result in downgrading of the ratings on the Bonds insured by the Insurer. Such a downgrade could adversely affect the market price for, and marketability of, the Bonds. The Insurer is not contractually bound to maintain its present claims paying ability or financial strength ratings in the future. See "RATINGS" herein.

Creditworthiness of the Insurer. The Insurer's obligation under the Insurance Policy is a general obligation of the Insurer. Default by the Insurer may result in insufficient funds being available to pay the principal of and interest on the Bonds. In such event, the remedies available to the applicable Trustee may be limited by, among other things, certain risks related to bankruptcy proceedings, and may also have been altered prior to a default by the Insurer, which has the right, acting with the Trustee, without Owner consent, to amend the applicable provisions of the Indenture governing defaults and remedies and to direct the Trustee to direct remedies with respect to such obligation. The Insurance Policy does not insure the payment of redemption premiums.

Developments over the past few years which have been the subject of substantial discussion in the financial press and which affect the bond insurance business, including that of the Insurer, have had a serious adverse effect on the financial condition of a number of bond insurers, weakening their credit status as reflected in their credit ratings. Therefore, when making an investment decision on the Bonds a prospective Owner should look to the ability of the District to pay the Debt Service Payments which secure the Bonds and not solely to the Insurer's ability to pay claims under the Insurance Policy.

No review of the business or affairs of the Insurer has been conducted by the District or the Underwriter in connection with the offering of the Bonds. No assurance can be given by the District or the Underwriter as to the Insurer's ability to pay claims under the Insurance

Policy. See “MUNICIPAL BOND INSURANCE” herein and “APPENDIX G” hereto for further information concerning the Insurer and the Insurance Policy, including instructions for obtaining certain financial information concerning the Insurer.]

TAX MATTERS

General

In the opinion of Bond Counsel, under existing laws, regulations, rulings and judicial decisions, interest on the Bonds is excluded from gross income for federal income tax purposes. Bond Counsel is further of the opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that it is included in adjusted current earnings for purposes of the federal alternative minimum tax imposed on individuals and corporations. The opinions described in the preceding sentences assume the accuracy of certain representations and compliance by the District with covenants designed to satisfy the requirements of the Code that must be met subsequent to the issuance of the Bonds. Failure to comply with such requirements could cause interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The District will covenant to comply with such requirements. Bond Counsel has expressed no opinion regarding other federal tax consequences arising with respect to the Bonds. Bond Counsel is of the opinion that under existing laws, regulations, rulings and judicial decisions, interest on the Bonds is exempt from State of California personal income taxes.

The accrual or receipt of interest on the Bonds may otherwise affect the federal income tax liability of the owners of the Bonds. The extent of these other tax consequences will depend upon such owners' particular tax status and other items of income or deduction. Bond Counsel has expressed no opinion regarding any such consequences. Purchasers of the Bonds, particularly purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States), property or casualty insurance companies, banks, thrifts or other financial institutions, certain recipients of social security or railroad retirement benefits, taxpayers otherwise entitled to claim the earned income credit, or taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, should consult their tax advisors as to the tax consequences of purchasing or owning the Bonds.

Backup Withholding. As a result of the enactment of the Tax Increase Prevention and Reconciliation Act of 2005, interest on tax-exempt obligations such as the Bonds is subject to information reporting in a manner similar to interest paid on taxable obligations. Backup withholding may be imposed on payments made after March 31, 2007 to any bondholder who fails to provide certain required information including an accurate taxpayer identification number to any person required to collect such information pursuant to Section 6049 of the Code. The new reporting requirement does not in and of itself affect or alter the excludability of interest on the Bonds from gross income for federal income tax purposes or any other federal tax consequence of purchasing, holding or selling tax-exempt obligations.

Tax Treatment of Original Issue Discount and Premium. If the initial offering price to the public (excluding bond houses and brokers) at which a Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes “original issue discount” for purposes of federal income taxes and State of California personal income taxes. If the initial

offering price to the public (excluding bond houses and brokers) at which a Bond is sold is greater than the amount payable at maturity thereof, then the excess of the tax basis of a purchaser of such Bond (other than a purchaser who holds such Bond as inventory, stock in trade or for sale to customers in the ordinary course of business) over the principal amount of such Bond constitutes "original issue premium" for purposes of federal income taxes and State of California personal income taxes.

Under the Code, original issue discount is excludable from gross income for federal income tax purposes to the same extent as interest on the Bonds. Further, such original issue discount accrues actuarially on a constant interest rate basis over the term of each such Bond and the basis of such Bond acquired at such initial offering price by an initial purchaser of each such Bond will be increased by the amount of such accrued discount. The Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the Bonds who purchase such Bonds after the initial offering of a substantial amount thereof. Owners who do not purchase such Bonds in the initial offering at the initial offering prices should consult their own tax advisors with respect to the tax consequences of ownership of such Bonds. All holders of such Bonds should consult their own tax advisors with respect to the allowance of a deduction for any loss on a sale or other disposition to the extent that calculation of such loss is based on accrued original issue discount.

Under the Code, original issue premium is amortized for federal income tax purposes over the term of such a Bond based on the purchaser's yield to maturity in such Bonds, except that in the case of such a Bond callable prior to its stated maturity, the amortization period and the yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such Bond. A purchaser of such a Bond is required to decrease his or her adjusted basis in such Bond by the amount of bond premium attributable to each taxable year in which such purchaser holds such Bond. The amount of bond premium attributable to a taxable year is not deductible for federal income tax purposes. Purchasers of such Bonds should consult their tax advisors with respect to the precise determination for federal income tax purposes of the amount of bond premium attributable to each taxable year and the effect of bond premium on the sale or other disposition of such a Bond, and with respect to the state and local tax consequences of owning and disposing of such a Bond.

Changes in Federal and State Tax Law

From time to time, there are legislative proposals in the Congress and in the various state legislatures that, if enacted, could alter or amend federal and state tax matters referred to above or adversely affect the market value of the Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Bonds or the market value thereof would be impacted thereby. Purchasers of the Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Bonds and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

Form of Opinion

The form of Bond Counsel's anticipated opinion is included as APPENDIX D. The statutes, regulations, rulings, and court decisions on which such opinion will be based are subject to change.

BANK QUALIFIED

The District has designated the Bonds "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Code, and, in the case of certain financial institutions (within the meaning of Section 265(b)(3) of the Code), a deduction is allowed for 80% of that portion of such financial institutions' interest expense allocable to interest on the Bonds.

NO LITIGATION

There is no action, suit or proceeding known to be pending or threatened, restraining or enjoining the issuance or delivery of the Bonds or the Indenture or in any way contesting or affecting the validity of the foregoing or any proceedings of the District taken with respect to any of the foregoing. The District is not aware of any litigation pending or threatened questioning the existence or powers of the District or the ability of the District to pay principal or interest on the Bonds.

Although the District is subject to a number of lawsuits in the ordinary conduct of its affairs, there are no claims or actions, threatened or pending, which, if determined against the District, either individually or in the aggregate, would have a material adverse effect on the financial conditions of the District or the Revenue Fund.

RATINGS

Standard & Poor's Credit Market Services, a division of The McGraw-Hill Companies, Inc. ("Standard & Poor's") is expected to assign its municipal bond rating of "AA- (stable outlook)" to the Bonds, with the understanding that, upon issuance of the Bonds, a policy insuring the payment when due of principal of and interest on the Bonds will be issued by the Insurer. Furthermore, Standard & Poor's has assigned an underlying rating of "A+" to the Bonds. See "MUNICIPAL BOND INSURANCE" herein for a discussion of recent actions taken by the rating agencies with respect to the Insurer.

The ratings reflect only the views of such organization, and an explanation of the significance of such ratings may be obtained from Standard & Poor's. There is no assurance that the ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by Standard & Poor's, if, in the judgment of Standard & Poor's rating agency, circumstances so warrant. The District undertakes no responsibility to oppose any downward revision or withdrawal of any rating obtained. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

PROFESSIONAL FEES

In connection with the issuance of the Bonds, fees payable to Nossaman LLP as Bond Counsel and Disclosure Counsel, and U.S. Bank National Association, as Trustee, are contingent upon the issuance of the Bonds. Although it is serving as Bond Counsel and Disclosure Counsel to the District in connection with the issuance of the Bonds, Bond Counsel

represents the Underwriter in connection with other financings and matters unrelated to the Bonds.

CERTAIN LEGAL MATTERS

Upon the delivery of the Bonds, Nossaman LLP, Irvine, California, Bond Counsel, will issue its opinion approving the validity of the Bonds, the form of which opinion is set forth in APPENDIX D hereto. Certain legal matters will be passed upon for the District by its general counsel, and by Nossaman LLP, as Disclosure Counsel.

UNDERWRITING

The District has agreed to sell the Bonds to Brandis Tallman LLC (the "Underwriter"). The Underwriter has agreed, subject to certain conditions, to purchase the Bonds at a purchase price of \$_____ (the principal amount of the Bonds, less net original issue discount of \$_____ and less an underwriting discount of \$_____). The obligations of the Underwriter are subject to certain conditions precedent, and it will be obligated to purchase all such Bonds if any such Bonds are purchased. The Underwriter intends to offer the Bonds to the public initially at the prices and/or yield set forth on the cover page of this Official Statement, which prices or yields may subsequently change without any requirement of prior notice.

The Underwriter reserves the right to join with dealers and other underwriters in offering the Bonds to the public. The Underwriter may offer and sell Bonds to certain dealers (including dealers depositing Bonds into investment trusts) at prices lower than the public offering prices, and such dealers may reallow any such discounts on sales to other dealers. In reoffering Bonds to the public, the Underwriter may overallocate or effect transactions which stabilize or maintain the market prices for Bonds at levels above those which might otherwise prevail. Such stabilization, if commenced, may be discontinued at any time.

ADDITIONAL INFORMATION

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

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

NORTH OF RIVER SANITARY DISTRICT NO. 1

By: _____
General Manager

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APPENDIX A

SUMMARY OF THE INDENTURE

Definitions

“Authorized Officer” means, with respect to the District, its President, Vice President, District Manager or the Finance Director or any other person designated as an Authorized Representative of the District by a Written Certificate of the District signed by its President, Vice President or District Manager, and filed with the Trustee.

“Bond Counsel” means any other attorney or firm of attorneys appointed by and acceptable to the District, of nationally-recognized experience in the execution and delivery of obligations the interest in which is excludable from gross income for federal income tax purposes under the Code.

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

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

“Bond Insurer Default” means (a) the Bond Insurer shall be in payment default under the Bond Insurance Policy and such failure shall continue for three business days, or (b) any material provision of the Bond Insurance Policy shall be held to be invalid by a final, non-appealable order of a court of competent jurisdiction, or the validity or enforceability thereof shall be contested by the Bond Insurer.

“Bond Insurer Rate” means the lesser of (a) the greater of (i) the per annum rate of interest, publicly announced from time to time by JPMorgan Chase Bank at its principal office in the City of New York, as its prime or base lending rate (“Prime Rate”) (any change in such Prime Rate to be effective on the date such change is announced by JPMorgan Chase Bank) plus 3%, and (ii) the then applicable highest rate of interest on the Bonds, and (b) the maximum rate permissible under applicable usury or similar laws limiting interest rates. The Bond Insurer Rate shall be computed on the basis of the actual number of days elapsed over a year of 360 days. In the event JPMorgan Chase Bank ceases to announce its Prime Rate publicly, the Prime Rate shall be the publicly announced prime or base lending rate of such national bank as the Bond Insurer shall specify.

“Bond Insurer’s Fiscal Agent” means a fiscal agent appointed by the Bond Insurer for purposes of, and in accordance with the terms contained in, the Bond Insurance Policy.

“Bond Reserve Policy” means the Municipal Bond Debt Service Reserve Insurance Policy, and any Endorsement thereto, issued by the Bond Insurer under which claims may be made in order to provide moneys in the Reserve Fund available for the purposes thereof.

“Bond Year” means the period from the Closing Date through May 1, 2013, and thereafter the twelve-month period commencing on May 2 of each year through and including May 1 of the following year.

“Business Day” means any day other than a Saturday, Sunday or legal holiday or a day on which banks are authorized to be closed for business in California or on which the Principal Office is authorized to be closed.

“Certificate of the District” means an instrument in writing signed by an Authorized Officer.

“Code” means the Internal Revenue Code of 1986, as amended. Each reference to a section of the Code in the Indenture shall be deemed to include the United States Treasury Regulations, including temporary and proposed regulations relating to such section which are applicable to the Certificates or the use of the proceeds thereof.

“Debt Service” means, during any period of computation, the amount obtained for such period by totaling the following amount--

(a) The principal amount of all Outstanding serial Bonds and Parity Obligations coming due and payable by their terms in such period (except to the extent that such principal has been fully capitalized and is invested in Federal Securities which mature at times and in such amounts as are necessary to pay the principal to which such amounts are pledged);

(b) The minimum principal amount of all Outstanding term Bonds and Parity Obligations scheduled to be redeemed by operation of mandatory sinking fund deposits in such period, together with any premium thereon (except to the extent that such principal has been fully capitalized and is invested in Federal Securities which mature at times and in such amounts as are necessary to pay the principal to which such amounts are pledged); and

(c) The interest which would be due during such period on the aggregate principal amount of Bonds and Parity Obligations which would be Outstanding in such period if the Bonds or Parity Obligations are retired as scheduled (except to the extent that such interest has been fully capitalized and is invested in Federal Securities which mature at times and in such amounts as are necessary to pay the interest to which such amounts are pledged), but deducting and excluding from such aggregate amount the amount of Bonds and Parity Obligations no longer Outstanding; provided that, whenever interest as described in the Indenture accrues at other than a fixed rate, such interest shall be assumed to be a rate equal to the greater of (i) the actual rate on the date of calculation, or if the Parity Obligation is not yet outstanding, the initial rate (if established and binding), (ii) if the Parity Obligation has been outstanding for at least twelve months, the average rate over the twelve months immediately preceding the date of calculation, and (iii) (x) if interest on the Parity Obligation is excludable from gross income under the applicable provisions of the Internal Revenue Code, the most recently published The Bond Buyer Bond Revenue Index (or comparable index if no longer published) plus fifty (50) basis points, or (y) if interest is not so excludable, the interest rate on direct U.S. Treasury Obligations with comparable maturities, plus fifty (50) basis points.

“Debt Service Payments” mean the payments of Debt Service on the Bonds due under the Indenture.

“District” means the North of River Sanitary District No. 1, a sanitation district duly organized and existing under the Constitution and laws of the State of California, including the County Sanitation District Act, (California Health and Safety Code Section 4700 *et seq.*), and its successors and assigns.

“Due Date” means the fifth (5th) Business Day of the month prior to each Interest Payment Date.

“Event of Default” means an event of default described in the Indenture.

“Federal Securities” mean (a) direct obligations (other than an obligation subject to variation in principal repayment) of the United States of America, (b) obligations fully and unconditionally guaranteed as to timely payment of the interest and principal by the United States of America, (c) obligations of any agency or instrumentality of the United States of America as to which the timely payment of the interest on and the principal of such obligations is 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.

“Fiscal Year” means the twelve calendar month period terminating on June 30 of each year, or any other annual accounting period selected after the date of the Indenture and designated by the District as its Fiscal Year in accordance with applicable law.

“Generally Accepted Accounting Principles” mean the uniform accounting and reporting procedures prescribed by the California State Controller or his successor for special districts in the State of California, or failing the prescription of such procedures means generally accepted accounting principles as presented and recommended by the American Institute of Certified Public Accountants or its successor, or by the National Council on Governmental Accounting or its successor, or by any other generally accepted authority on such principles.

“Governmental Loan” means a loan from the State or the United States of America, acting through any of its agencies, to finance improvements to the Wastewater System, and the obligation of the District to make payments to the State or the United States of America under the loan agreement memorializing said loan on a parity basis with the payment of Debt Service Payments.

“Gross Revenues” means all gross charges (including surcharges, if any) received for, and all other gross income and receipts derived by the District from, the ownership and operation of the Wastewater System or otherwise arising from the Wastewater System, including but not limited to (a) connection charges, (b) investment earnings on amounts held in the Revenue Fund or in any other fund established with respect to the Wastewater System, (c) the proceeds of any ad valorem property taxes received by the District, other than *ad valorem* property taxes levied for the purpose of paying bonded indebtedness of the District, and (d) rental income related to the Wastewater System. Gross Revenues does not include (i) refundable deposits made to establish credit, and (ii) the proceeds of any special assessments or special taxes levied upon real property within any improvement district served by the District for the purpose of paying special assessment bonds or special tax obligations of the District relating to the Wastewater System. Gross Revenues shall also include interest with respect to any Parity Obligations reimbursed to or on behalf of the District by the United States of America. Gross Revenues shall also be increased by the amounts, if any, transferred during such Fiscal Year or other period from the Rate Stabilization Fund to the Revenue Fund and shall be decreased by the amounts, if any, transferred during such Fiscal Year or other period from the Revenue Fund to the Rate Stabilization Fund.

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

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

“Interest Payment Date” means May 1, 2013, and each November 1 and May 1 thereafter.

“Maximum Annual Debt Service” means the largest annual Debt Service on the Bonds during the period from the date of such determination through the final maturity date of the Bonds.

“Moody’s” means Moody’s Investors Service, Inc., its successors and assigns.

“Net Proceeds” means, when used with respect to any insurance or condemnation award, the proceeds from such insurance or condemnation award remaining after payment of all reasonable expenses (including attorneys’ fees) incurred in the collection of such proceeds.

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

“Outstanding” when used as of any particular time with reference to Bonds, means all Bonds except:

- (1) Bonds canceled by the Trustee;
- (2) Bonds paid or deemed to have been paid; and
- (3) Bonds in lieu of or in substitution for which replacement Bonds shall have been executed and delivered under the Indenture.

“Owner” or “Bondowner” means the registered owner of any Outstanding Bond.

“Parity Obligations” means the SRF Loan and indebtedness or other obligations (including leases and installment sale agreements) hereafter issued or incurred by the District and secured by a pledge of and lien on Net Revenues equally and ratably with the Debt Service Payments.

“Permitted Investments” mean any of the following which at the time of investment are legal investments under the laws of the State of California for the moneys proposed to be invested therein (the Trustee is entitled to conclusively rely upon any direction of the District as a certification that such investment constitutes a Permitted Investment):

1. Direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury, but excluding CATS and TIGRS) or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America.

2. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):

Farmers Home Administration (FmHA)
Certificates of beneficial ownership

Federal Housing Administration Debentures (FHA)

General Services Administration
Participation certificates

Government National Mortgage Association (GNMA or “Ginnie Mae”)
GNMA – guaranteed mortgage-backed bonds
GNMA – guaranteed pass-through obligations (participation certificates)
(not acceptable for certain cash-flow sensitive issues.)

U.S. Maritime Administration
Guaranteed Title XI financing

U.S. Department of Housing and Urban Development (HUD)
Project Notes
Local District Bonds
New Communities Debentures – U.S. Government guaranteed debentures
U.S. Public Housing Notes and Bonds – U.S. Government guaranteed
public housing notes and bonds

3. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself):

Federal Home Loan Bank System
Senior debt obligations

Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac")
Participation certificates
Senior debt obligations

Federal National Mortgage Association (FNMA or "Fannie Mae")
Mortgage-backed securities and senior debt obligations

Resolution Funding Corp. (REFCORP) obligations

Farm Credit System
Consolidated system-wide bonds and notes

Federal Agriculture Mortgage Association

Tennessee Valley District

4. Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of "AAAm-G," "AAA-m," or "AA-m" and if rated by Moody's rated "Aaa," "Aa1" or "Aa2," including funds for which the Trustee, its parent holding company, if any, or any affiliates or subsidiaries of the Trustee provide investment advisory or other management services.

5. Certificates of deposit secured at all times by collateral described in 1 and/or 2 above. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks including the Trustee and its affiliates. The collateral must be held by a third party and the Owners must have a perfected first security interest in the collateral; and unsecured certificates of deposit, time deposits, money market deposits, demand deposits and bankers' acceptances of any bank (including those of the Trustee, its parent and its affiliates) the short-term obligations of which are rated on the date of purchase in one of the two highest rating categories by S&P and by Moody's.

6. Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including BIF and SAIF.

7. Investment agreements, including GIC's, forward purchase agreements and reserve fund put agreements.

8. Commercial paper rated, at the time of purchase, "Prime -1" by Moody's and "A-1" or better by S&P.

9. Bonds or notes issued by any state or municipality which are rated by Moody's and S&P in one of the two highest rating categories assigned by such agencies.

10. Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of "Prime -1" or "A2" or better by Moody's and "A-1" or "A" or better by S&P.

11. Repurchase agreements for 30 days or less must follow the following criteria:

(i) Repurchase agreements that provide for the transfer of securities from a dealer bank or securities firm (seller/borrower) to the Trustee (buyer/lender), and the transfer of cash from the Trustee to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the Trustee in exchange for the securities at a specified date.

12. Asset-backed Securities: As authorized in Government Code Section 53601(n), investment in any equipment lease-backed certificate, consumer receivable pass-through certificate or consumer receivable-backed bond with a maximum remaining final maturity of five years. Purchases will be restricted to securities with an expected weighted average life not to exceed three years. Securities eligible for investment under this subdivision shall be rated "AAA" by a nationally recognized rating service.

13. Mortgage-backed Securities: As authorized in Government Code Section 53601(n), investment in any mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, with a maximum remaining final maturity of five years. Purchases will be restricted to securities with an expected weighted average life not to exceed three years. Securities eligible for investment under this subdivision shall be rated "AAA" by a nationally recognized rating service. Purchases of asset-backed and mortgage-backed securities may not exceed 20% of the District's portfolio in total.

14. Medium-term Notes: Corporate notes issued by corporations organized and operating within the United States with a rating of "A" or higher at the time of purchase by a nationally recognized rating service and with a maximum remaining maturity of no more than three (3) years after the date of purchase.

15. The Local Agency Investment Fund created pursuant to Section 16429.1 of the California Government Code, to the extent the Trustee is authorized to register such investment in its name.

16. Shares in a California common law trust established pursuant to Title 1, Division 7, Chapter 5 of the Government Code of the State of California which invests exclusively in investments permitted by Section 53601 of Title 5, Division 2, Chapter 4 of the Government Code of California, as it may be amended.

17. The County of Kern Pooled Treasury Portfolio.

"Principal Office" means the corporate trust office of the Trustee set forth in the Indenture (except for payment, surrender and exchanges of the Bonds which shall be the corporate trust office of the Trustee in St. Paul, Minnesota), or such other or additional offices as may be designated by the Trustee.

"Prior Obligations" means the District's obligations under the Installment Purchase Agreement, as evidenced by the 2003 Certificates of Participation (Wastewater System Project).

“Rate Stabilization Fund” means the fund of that name, if any, established by the District under the Indenture.

“Record Date” means the fifteenth day of the calendar month prior to an Interest Payment Date.

“Reserve Requirement” means, as of any date of calculation, the lesser of (i) 10% of the initial principal amount of the Bonds, (ii) an amount equal to Maximum Annual Debt Service, or (iii) 125% of average annual Debt Service Payments payable under the Indenture.

“Responsible Officer” means any officer of the Trustee assigned by the Trustee to administer the trusts established under the Indenture.

“Revenue Fund” means the fund of the District into which it deposits Gross Revenues.

“S&P” means Standard & Poor’s Ratings Group, a division of McGraw Hill Incorporated, its successors and assigns.

“SRF Loan” means the State Revolving Fund Loan No. C-06-4337-110 made to the District by the State Water Resources Control Board in the original principal amount of 913,217,689 under Contract No. 7-8L1-550-0 between the District and the State, dated as of April 1, 1998.

“State” means the State of California.

“Subordinate Debt” means indebtedness or other obligations (including leases and installment sale agreements) issued or incurred after the date of the Indenture and secured by a pledge of and lien on Net Revenues subordinate to the Bonds.

“Principal Office” means the office of the Trustee designated in the Indenture, and such other offices as the Trustee may designate from time to time.

“Wastewater System” means the entire existing system of the District for the collection, treatment and disposal of water within the service area of the District, including but not limited to all facilities, properties, lands, rights, entitlements and other property useful in connection therewith, together with all extensions thereof and improvements thereto at any time acquired, constructed or installed by the District.

Transfer and Exchange of Bonds

Subject to the Indenture, each Bond shall be transferable only upon a register of the names of each Owner (the “Bond Register”), which shall be kept for that purpose at the Principal Office, by the Owner thereof in person or by his or her attorney duly authorized in writing, upon surrender thereof together with a written instrument of transfer satisfactory to the Trustee duly executed by the Owner or his or her duly authorized attorney. Upon the transfer of any such Bond, the Trustee shall provide in the name of the transferee, a new Bond or Bonds, of the same aggregate principal amount, interest rate and maturity as the surrendered Bonds (unless there has occurred a partial redemption of such Bond, in which case the principal amount of the new Bond shall be equal to the unredeemed principal amount of the Bond submitted for transfer).

Bonds Mutilated, Destroyed, Lost or Stolen

If any Bond shall become mutilated, the Trustee, at the expense of the Owner of said Bond, shall authenticate and deliver a new Bond of like tenor in exchange and substitution for the Bond so mutilated, but only upon surrender to the Trustee of the Bond so mutilated. If any Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft shall be submitted to the Trustee, and, if such evidence is satisfactory to the Trustee and if an indemnity satisfactory to the Trustee shall be given, the Trustee, at the expense of the Owner, shall authenticate and deliver a new Bond of like tenor and numbered as the Trustee shall determine in lieu of and in substitution for the Bond so lost, destroyed or stolen.

Payment of Debt Service

All of the Net Revenues are pledged under the Indenture for the payment of Parity Obligations, including the Bonds, and all moneys on deposit in the Payment Fund and the Redemption Fund established under the Indenture are irrevocably pledged, charged and assigned to the punctual payment of the Bonds, and except as otherwise provided in the Indenture, the Net Revenues and such other funds shall not be used for any other purpose so long as any of the Bonds remain Outstanding. Such pledge, charge and assignment shall constitute a first lien on the Net Revenues and such other moneys for the payment of the Debt Service Payments, the Bonds and any Parity Obligations in accordance with the terms of the Indenture.

The District's obligation to pay the Debt Service Payments and any other amounts coming due and payable under the Indenture shall be a special obligation of the District limited solely to the Net Revenues. Under no circumstances shall the District be required to advance moneys derived from any source of income other than the Net Revenues and other sources specifically identified in the Indenture for the payment of the Debt Service Payments and the Bonds, nor shall any other funds or property of the District be liable for the payment of the Debt Service Payments, the Bonds or any other amounts coming due and payable under the Indenture.

The obligations of the District to make the Debt Service Payments from the Net Revenues and to perform and observe the other agreements contained in the Indenture shall be absolute and unconditional and shall not be subject to any defense or any right of setoff, counterclaim or recoupment arising out of any breach of the District or the Trustee of any obligation to the District or otherwise with respect to the Wastewater System, whether under the Indenture or otherwise, or out of indebtedness or liability at any time owing to the District by the Trustee. The District acknowledges that its obligation to make Debt Service Payments under the Indenture is absolute and unconditional, free of deductions and without abatement, offset, recoupment, diminution or set-off whatsoever. Until such time as all of the Debt Service Payments and all other amounts coming due and payable under the Indenture shall have been fully paid or prepaid, the District (a) will not suspend or discontinue payment of any Debt Service Payments or such other amounts with respect to the Bonds, (b) will perform and observe all other agreements contained in this Indenture, and (c) will not terminate this Indenture for any cause, including, without limiting the generality of the foregoing, the occurrence of any acts or circumstances that may constitute failure of consideration, eviction or constructive eviction, destruction of or damage to the Wastewater System, sale of the Wastewater System, the taking by eminent domain of title to or temporary use of any component of the Wastewater System, commercial frustration of purpose, any change in the tax or other laws of the United States of America or the State or any political subdivision of

either thereof or any failure of the Trustee to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with the Indenture.

Deposit of Debt Service Payments

All Debt Service Payments with respect to the Bonds shall be paid directly by the District to the Trustee on the applicable Due Date. Such payments received by the Trustee shall be held in trust by the Trustee under the terms of the Indenture and shall be deposited by it as and when received in the Debt Service Account of the Payment Fund, which fund the Trustee agrees to establish and maintain as provided in the Indenture so long as any Bonds are Outstanding.

The Net Revenues of the Wastewater System shall be received and deposited by the District in the Debt Service Fund held by the District. On or before each Due Date, the District shall withdraw from the Debt Service Fund an amount, together with the balance then on deposit in the Payment Fund, if any (other than amounts held for the defeasance of Bonds pursuant to the Indenture and any amounts required for payment of principal of or interest on any Bonds which have matured or been called for redemption but which have not yet been presented for payment), equal to the aggregate amount of the Debt Service Payments coming due on the next succeeding Interest Payment Date, and transfer the same to the Trustee for deposit into the Payment Fund on the following dates and in the following amounts:

- (1) Interest Component. On or before the fifteenth day of each June and December, an amount which is equal to the amount to become due on such Bonds on the next succeeding Interest Payment Date; provided, however, that the District may be entitled to certain credits on such payments as set forth above.
- (2) Principal Component. On or before the fifteenth day of June of each year, an amount which, together with any moneys already on deposit with the Trustee and available to make such payment, is not less than the entire amount of the next succeeding maturing principal or mandatory sinking account payment coming due on the Bonds after such date; provided, however, that the District may be entitled to certain credits on such payments as set forth above.

All Gross Revenues in the Revenue Fund shall be set aside by the District or deposited by the District with the Trustee, or the trustee or fiscal agent with respect to Parity Obligations, as the case may be, as follows and in the following order of priority:

- (1) Operation and Maintenance Expenses. In order to carry out and effectuate the pledge and lien contained in the Indenture, the District agrees and covenants to pay all Operation and Maintenance Expenses (including amounts reasonably required to be set aside in contingency reserves for Operation and Maintenance Expenses, the payment of which is not then immediately required) from the Revenue Fund as they become due and payable.
- (2) Debt Service Funds. Debt Service Payments and all other payments relating to principal and interest on or with respect to Parity Obligations,

shall be paid in accordance with the terms of the Indenture and of such Parity Obligations, without preference or priority, and in the event of any insufficiency of such moneys, ratably without any discrimination or preference.

- (3) Reserve Funds. Payments required by the Indenture, or with respect to Parity Obligations, to replenish debt service reserve funds established for Parity Obligations shall be made in accordance with the terms of the Indenture and such Parity Obligations, without preference or priority, and in the event of any insufficiency of such moneys, ratably without any discrimination or preference.
- (4) General Expenditures/Rate Stabilization Fund. All Gross Revenues not required to be withdrawn pursuant to the provisions of (1) through (3) above shall be used for expenditure for any lawful purpose of the District, including payment of Operation and Maintenance Expenses or payment of any rebate requirement or of any obligation subordinate to the payment of all amounts due hereunder or under Parity Obligations. The District may maintain and hold a separate fund to be known as the "Rate Stabilization Fund." From time to time the District may deposit in the Rate Stabilization Fund, from remaining Net Revenues described in this subsection (4) or other available funds of the District, such amounts as the District shall determine. The District may withdraw amounts from the Rate Stabilization Fund (i) for transfer to the Revenue Fund for inclusion in Gross Revenues for any Fiscal Year, or (ii) for any other lawful use of the District. All interest or other earnings upon deposits in the Rate Stabilization Fund shall be withdrawn therefrom and accounted for as Gross Revenues.

The parties to the Indenture acknowledge that although all Parity Obligations are secured equally and ratably by applicable Net Revenues, moneys with respect to obligations other than the Bonds may be held by the Trustee or by trustees other than the Trustee under documents and agreements other than the Indenture, and the Indenture imposes no obligations upon the Trustee with respect to such other obligations. The District shall make such transfers from the Revenue Fund necessary to effectuate such obligations' parity claim on such Net Revenues contemplated hereby.

Liability of District Limited

Notwithstanding anything contained in the Indenture, the District will not be required to advance any moneys derived from any source of income other than Net Revenues legally available therefor in the Revenue Fund and the other funds provided in the Indenture for the payment of the Debt Service Payments or for the performance of any agreements or covenants contained in the Indenture required to be performed by it. The District may, however, but will not be required to, advance moneys for any such purpose so long as such moneys are derived from a source legally available for such purpose and may be legally used by the District for such purpose.

The obligation of the District to make the Debt Service Payments and the other amounts due under the Indenture is a special obligation of the District payable solely from the moneys legally available therefor under the Indenture , and does not constitute a debt of the District or

of the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction.

The Reserve Fund; Replenishment

The Trustee agrees to establish and maintain so long as any Bonds are Outstanding the Reserve Fund. The Reserve Fund shall initially be funded, and shall continuously be funded, in an amount equal to the Reserve Requirement. So long as the Bond Reserve Policy is in force and effect, the Trustee shall draw on the Bond Reserve Policy in accordance with the provisions of the Indenture set forth below.

Compliance with Indenture

The District will not suffer or permit any material default by it to occur under the Indenture, but will faithfully comply with, keep, observe and perform all the agreements, conditions, covenants and terms of the Indenture required to be complied with, kept, observed and performed by it.

Observance of Laws and Regulations

The District will truly keep, observe and perform all valid and lawful obligations or regulations now or imposed after the date of the Indenture on it with respect to the Wastewater System by contract, or prescribed by any law of the United States, or of the State, or by any officer, board or commission having jurisdiction or control, as a condition of the continued enjoyment of any and every right, privilege or franchise now owned or acquired after the date of the Indenture by the District with respect to the Wastewater System to the end that such rights, privileges and franchises shall be maintained and preserved, and shall not become abandoned, forfeited or in any manner impaired.

Prosecution and Defense of Suits

The District will promptly, upon request of the Trustee or any Owner holding at least 25% in principal amount of the Bonds from time to time, take such action as may be necessary or proper to remedy or cure any defect in or cloud upon the title to the Wastewater System, whether now existing or developing after the date of the Indenture and shall, to the extent permitted by law, prosecute all such suits, actions and other proceedings as may be appropriate for such purpose and shall indemnify and save the Trustee and every Owner harmless from all loss, cost, damage and expense, including attorneys' fees, which they or any of them may incur by reason of any such defect, cloud, suit, action or proceeding.

Accounting Records and Statements

The Trustee will keep proper accounting records in which complete and correct entries shall be made of all transactions made by the Trustee relating to the receipt, deposit and disbursement of the Debt Service Payments, and such accounting records shall be available for inspection by the District or any Owner or his or her agent duly authorized in writing on any Business Day upon reasonable notice at reasonable hours and under reasonable conditions prescribed by the Trustee.

Further Assurances

Whenever and so often as requested to do so by the Trustee or any Owner, the District will promptly execute and deliver or cause to be executed and delivered all such other and further assurances, documents or instruments and promptly do or cause to be done all such other and further things as may be necessary or reasonably required in order to further and more fully vest in the Trustee and the Owners all advantages, benefits, interests, powers, privileges and rights conferred or intended to be conferred upon them by the Indenture.

Against Encumbrances

The District covenants that there is no pledge of or lien on Net Revenues senior to the pledge and lien securing the Bonds. The District will not make any pledge of or place any lien on the Net Revenues, provided that the District may at any time, or from time to time, pledge or encumber the Net Revenues in connection with the issuance or execution of Parity Obligations, or subordinate to the pledge of Net Revenues in the Indenture.

Against Sale or Other Disposition of Property

Except in the ordinary course of business, the District will not sell, lease, encumber or otherwise dispose of the Wastewater System or any part thereof; provided however, any real or personal property which has become non-operative or which is not needed for the efficient and proper operation of the Wastewater System, or any material or equipment which has become worn out, may be sold or exchanged at not less than the fair market value thereof. The proceeds (if any) of such sale or exchange, if less than \$25,000 in a Fiscal Year, shall be deposited in the Revenue Fund. The proceeds (if any) of such sale or exchange, if greater than \$25,000 in a Fiscal Year, shall either (a) be used for the acquisition or construction of improvements, extensions or replacements of facilities constituting part of the Wastewater System, or (b) to the extent not so used, be paid to the Trustee to be applied to pay or redeem the Bonds or any Parity Obligations, in accordance with written instructions of the District filed with the Trustee. The District will not enter into any agreement or lease which would materially impair the rights of the Owners or the operation of the Wastewater System.

Against Competitive Facilities

Except for any utility system existing as of the date of the Indenture, the District will not, to the extent permitted by law, acquire, maintain or operate and will not, to the extent permitted by law and within the scope of its powers, permit any other public or private agency, authority, city or political subdivision or any person whomsoever to acquire, maintain or operate within the District any utility system competitive with the Wastewater System; provided, however, that the District may assign all or a portion of the Wastewater System to another entity upon delivery to the Trustee of an opinion of nationally recognized bond counsel that such assignment will not adversely affect the tax-exempt status of the Bonds, and provided such entity assumes the obligations of the District under the Indenture .

Tax Covenants

The District will not take any action or permit to be taken any action within its control which would cause or which, with the passage of time if not cured would cause, the interest on the Bonds to become includable in gross income for federal income tax purposes. To that end, the District makes the following specific covenants:

(a) The District covenants that it will not make or permit any use of the proceeds of the Bonds that may cause the Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended.

(b) The District covenants that the proceeds of the Bonds will not be used as to cause the proceeds on the Bonds to satisfy the private business tests of Section 141(b) of the Code or the private loan financing test of Section 141(c) of the Code.

(c) The District covenants not to take any action or permit or suffer any action to be taken if the result of the same would be to cause the Bonds to be “federally guaranteed” within the meaning of Section 149(b) of the Code.

Operation of the Wastewater System

The District covenants and agrees to operate, or cause to be operated, the Wastewater System in accordance with customary standards and practices applicable to similar facilities.

Payment of Claims

The District will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien on the Net Revenues or any part thereof or on any funds in the control of the District or the Trustee prior or superior to the lien of the Bonds or which might impair the security of the Bonds; provided the District will not be obligated to make such payment so long as the District contracts such payment in good faith.

Compliance with Contracts

The District will comply with, keep, observe and perform all agreements, conditions, covenants and terms, expressed or implied, required to be performed by it contained in all contracts for the use of the Wastewater System and all other contracts affecting or involving the Wastewater System to the extent that the District is a party thereto, including, without limitation, the SRF Loan.

Insurance

So long as the Bonds are Outstanding, the District will at all times maintain insurance on the Wastewater System as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to the Wastewater System, either in the form of self-insurance or with responsible insurers. The District will also maintain worker's compensation insurance and insurance against public liability and property damage to the extent reasonably necessary to protect the District, the Trustee and the Owners, either in the form of self-insurance or with responsible insurers. The Trustee is not responsible for the adequacy of such insurance.

All amounts collected from insurance against accident to or destruction of any portion of the Wastewater System shall be used to repair, rebuild or replace such damaged or destroyed portion of the Wastewater System, and to the extent not so applied, shall be paid to the Trustee to be applied to redeem the Bonds or any Parity Obligations, in accordance with written instructions of the District filed with the Trustee. The District covenants that it will commence such replacement, repair, restoration, modification or improvement or indicate that such

replacement, repair, restoration, modification or improvement is not economically feasible within 180 days of receipt of such Net Proceeds.

Books and Accounts; Financial Statements

The District will keep proper books of record and accounts of the Wastewater System, separate from all other records and accounts, in which complete and correct entries shall be made of all transactions relating to the Wastewater System. Said books shall, upon prior request, be subject to the reasonable inspection by the Owners of not less than ten percent (10%) in aggregate principal amount of the Outstanding Bonds, or their representatives authorized in writing. The District will cause the books and accounts of the Wastewater System to be audited annually by an Independent Accountant, not more than one hundred eighty (180) days after the close of each Fiscal Year, and will make a copy of such report available for inspection by the Owners at the office of the District.

Payment of Taxes and Compliance with Governmental Regulations

The District will pay and discharge all taxes, assessments and other governmental charges, if any, which may be lawfully imposed upon the Wastewater System after the date of the Indenture or any part thereof or upon the Net Revenues when the same shall become due. The District will duly observe and conform with all valid regulations and requirements of any governmental authority relative to the operation of the Wastewater System or any part thereof, but the District will not be required to make such payments, or to comply with any regulations or requirements, so long as the payment or validity or application thereof shall be contested in good faith.

Eminent Domain Proceeds

Any amounts received as awards as a result of the taking of all or any part of the Wastewater System by the lawful exercise of eminent domain, at the election of the District shall either (a) be used for the acquisition or construction of improvements and extension of the Wastewater System, or (b) be paid to the Trustee to be applied to redeem the Bonds or any Parity Obligations, in accordance with written instructions of the District filed with the Trustee.

Rebate of Excess Investment Earnings to United States

The District shall calculate or cause to be calculated, and shall provide or cause to be provided written notice to the Trustee of, the excess investment earnings (as defined in the Code, "Excess Investment Earnings") at such times and in such manner as may be required pursuant to the Code. The District shall inform the Trustee how frequently calculations are to be made, and shall ensure that a copy of all such calculations is given promptly to the Trustee. The District agrees to deposit with the Trustee the amount of Excess Investment Earnings so calculated. The Trustee shall deposit all amounts paid to it for such purpose by the District in the Rebate Fund. The Trustee shall pay to the United States of America from the amounts on deposit in the Rebate Fund such amounts as shall be identified pursuant to written notice filed with the Trustee by the District for such purpose from time to time.

Events of Default and Events of Mandatory Acceleration; Acceleration of Maturities

If one or more of the following Events of Default shall happen:

(a) default shall be made in the due and punctual payment by the District of any Debt Service Payment when and as the same shall become due and payable;

(b) default shall be made by the District in the performance of any of the agreements or covenants contained in the Indenture required to be performed by it, and such default shall have continued for a period of sixty (60) days after the District shall have been given notice in writing of such default by the Trustee;

(c) the District shall file a petition seeking arrangement or reorganization under federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction shall approve a petition filed with the consent of the District seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction shall assume custody or control of the District or of the whole or any substantial part of its property; or

(d) an event of default shall have occurred with respect to any Parity Obligations;

If an Event of Default shall occur, then, and in each and every such case during the continuance of such Event of Default, the Trustee may, subject to the provisions of the Indenture, exercise any remedies available to the Trustee and the Bondowners in law or at equity.

Upon the occurrence of an Event of Default under the Indenture, the Trustee may declare the principal and interest with respect to all such Bonds immediately due and payable and such principal and interest shall thereupon be due and payable immediately. The Trustee shall apply amounts on deposit in the funds and accounts in accordance with the Indenture. This provision, however, is subject to the condition that, except with respect to an Event of Default under subsection (c) above, if at any time after such Outstanding principal amount of the Bonds and the accrued interest thereon shall have been so declared due and payable and before the acceleration date or the date of any judgment or decree for the payment of the money due shall have been obtained or entered, the District shall deposit with the Trustee a sum sufficient to pay such amount due prior to such date and the accrued interest thereon, with interest on such overdue payments at the rate on such Bonds, and the reasonable fees and expenses of the Trustee, including those of its attorneys, and any and all other defaults known to the District (other than in the payment of such principal amount of the Bonds and the accrued interest thereon due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then and in every such case the Trustee, by written notice to the District, may rescind and annul such declaration and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair or exhaust any right or power consequent thereon.

Other Remedies of the Trustee

The Trustee may (subject to the receipt of indemnity as provided in the Indenture):

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

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

(c) intervene in judicial proceedings that affect the Bonds or the security therefor or under the Indenture; or

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

Non-Waiver

A waiver of any default or breach of duty or contract by the Trustee or the Owners shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Trustee or the Owners to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Trustee or the Owners may be enforced and exercised from time to time and as often as shall be deemed expedient by the Trustee. If any action, proceeding or suit to enforce any right or to exercise any remedy is abandoned or determined adversely to the Trustee or the Owners, the Trustee, the Owners and the District shall be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

Remedies Not Exclusive

No remedy in the Indenture conferred upon or reserved to the Trustee is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given under the Indenture or now or existing after the date of the Indenture in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by any other law.

No Liability by the Trustee to the Owners

Except for the duty of the Trustee to make payments of principal, redemption premiums and interest with respect to the Bonds from moneys received from the District, the Trustee will not have any obligation or liability to the Owners with respect to the payment when due of the Debt Service Payments by the District, or with respect to the performance by the District of the other agreements and covenants required to be performed by it contained in the Indenture.

Limitation on Owners' Right to Bring Suit

No Owner of any Bond shall have any right to institute any proceeding, judicial or otherwise, under or with respect to the Indenture, or for the appointment of a receiver or trustee or for any other remedy under the Indenture, at law or in equity, unless:

- (1) such Owner has previously given written notice to the Trustee of a continuing Event of Default;
- (2) the owners of not less than a majority in principal amount of the Bonds Outstanding shall have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee under the Indenture;
- (3) such Owner or Owners have offered to the Trustee reasonable indemnity, satisfactory to the Trustee, against the costs, expenses and liabilities to be incurred in compliance with such request; and
- (4) the Trustee for sixty (60) days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding.

It being understood and intended that no one or more Owners shall have any right in any manner whatever by virtue of, or by availing of, any provision of the Indenture to affect, disturb or prejudice the lien of the Indenture or the rights of any other Owners or to obtain or to seek to obtain priority or preference over any other Owners or to enforce any right under the Indenture, except in the manner in the Indenture provided and for the equal and ratable benefit of all Bonds and Parity Obligations. Notwithstanding the foregoing, the Owner of any Bond shall have the right which is absolute and unconditional to receive payment of interest on such Bond when due in accordance with the terms thereof and of the Indenture and the principal of such Bond at the stated maturity thereof and to institute suit for the enforcement of any such payment in accordance with the provisions of the Indenture and such rights shall not be impaired without the consent of such Owner.

Application of Funds Upon Default

All monies received by the Trustee or by any receiver pursuant to any right given or action taken shall, after payment of the reasonable costs and fees of, and the reasonable fees, expenses, liabilities and advances incurred or made by the Trustee, be deposited in the Debt Service Account and all moneys so deposited during the continuance of an Event of Default (other than moneys for the payment of Bonds which have previously matured or otherwise become payable prior to such Event of Default or for the payment of interest due prior to such Event of Default), together with all moneys in the funds and accounts maintained by the Trustee under Article III of the Indenture, shall be applied as follows:

- (a) Unless the principal of all Bonds shall have become or shall have been declared due and payable, all such moneys shall be applied:

First: To the payment to the persons entitled thereto of all installments of interest then due on the Bonds and any Parity Obligations, with interest on overdue installments, if lawful, at the rate per annum borne by the Bonds, in the order of the maturity of the installments of such interest, and, if the amount available shall not be sufficient to pay in full any particular installment of interest, then to the payment ratably

according to the amounts due on such installment, to the persons entitled thereto without any discrimination or privilege; and

Second: To the payment to the persons entitled thereto of the unpaid principal of any of the Bonds and any Parity Obligations which shall have become due (other than Bonds called for redemption for the payment of which moneys are held pursuant to the provisions of the Indenture), with interest on such Bonds at their rate from the respective dates upon which they became due, in the order of their due dates, and, if the amount available shall not be sufficient to pay in full Bonds and any Parity Obligations due on any particular date, together with such interest, then to the payment ratably, according to the amount of principal and interest due on such date, to the persons entitled thereto without any discrimination or privilege.

(b) If the principal of all the Bonds shall have become due or shall have been declared due and payable, all such moneys shall be applied to the payment of the principal and interest then due and unpaid upon the Bonds and any Parity Obligations, with interest on overdue interest and principal, as aforesaid, without preference or priority over interest or of interest over principal or of any installment of interest over any other installment of interest, or of any Bonds over any other Bonds or any Parity Obligations, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or privilege.

Rights of the Owners of Parity Obligations

Notwithstanding anything to the contrary, it is acknowledged and agreed that the rights of the Trustee and the Owners under the Indenture in and to the Net Revenues and the Wastewater System shall be exercised on a parity and proportionate basis with the rights of the owners of any Parity Obligations and any fiduciary acting for the benefit of such owners.

The Trustee

The District, in its sole discretion, or the Owners of a majority in aggregate principal amount of all Bonds Outstanding may, by thirty (30) days prior written request, remove the Trustee initially a party to the Indenture, and any successor thereto, and in such event, or in the event the Trustee resigns, the District will appoint a successor Trustee, but any such successor will be a bank, national banking association or trust company in good standing doing business and having an office in Los Angeles or San Francisco, California, having (or if such bank, national banking association or trust company is a member of a bank holding company system, its bank holding company shall 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 authority. The Trustee may at any time resign by giving written notice to the District and by giving to the Bond Owners notice by mailing a notice of such resignation to their addresses appearing in the Bond Register. Upon receiving any such notice of resignation, the District will promptly appoint a successor Trustee by an instrument in writing; provided, however, that in the event that the District does not appoint a successor Trustee within thirty (30) days following receipt of such notice of resignation, the resigning Trustee may petition at the expense of the District an appropriate court having jurisdiction to appoint a successor Trustee or to resign.

Whenever in the administration of its duties under the Indenture, the Trustee shall 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 specifically prescribed in the Indenture) may, in the absence of negligence or willful misconduct on the part of the Trustee, be deemed to be conclusively proved and established by the certificate of an Authorized Officer of the District and such certificate shall be full warranty to the Trustee for any action taken or suffered under the provisions of the Indenture upon the faith thereof, but in its discretion the Trustee may, in lieu thereof (but shall not be obligated to), accept other evidence of such matter.

The Trustee may in good faith buy, sell, own, hold and deal in any of the Bonds issued pursuant to the Indenture, and may join in any action which any Owner may be entitled to take with like effect as if the Trustee were not a party to the Indenture. The Trustee and its affiliates, either as sponsor, advisor, principal or agent, may also engage in or be interested in any financial or other transaction with the District, and may act as depository, trustee, or agent for any committee or body of Owners of Bonds or other obligations of the District as freely as if it were not Trustee under the Indenture.

The Trustee may execute any of the trusts or powers of the Indenture and perform the duties required of it under the Indenture by or through attorneys, agents, or receivers, and shall be entitled to advice of counsel concerning all matters of trust and its duty under the Indenture. The Trustee will be fully reimbursed by the District for reasonable expenses incurred in connection with the performance of its obligations under the Indenture. Upon any default by, or misconduct of, any agent, attorney or receiver appointed by the Trustee, the Trustee will fully pursue all remedies available to it against such attorney, agent or receiver, and the proceeds of the exercise of such remedies shall be used to reimburse the District for any loss it may have suffered as a result of the default or misconduct of such agent, attorney or receiver. Before taking any remedial action under the Indenture the Trustee may require that a satisfactory indemnity bond or other indemnity satisfactory to the Trustee be furnished for the reimbursement of all reasonable expenses to which it may be put and to protect it against all liability which may be incurred in connection with the taking of such action, except liability which is adjudicated to have resulted from its negligence or willful misconduct; provided, however, the Trustee will not seek such indemnity prior to making payments on the Bonds.

The Trustee, prior to the occurrence of an Event of Default, and after the curing or waiving of all Events of Default which may have occurred, undertakes to perform only such duties as are 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 reasonable person would exercise or use in the conduct of such person's own affairs. The Trustee will not be deemed to have knowledge of an Event of Default (except in connection with a failure of the District to make Debt Service Payments when due) until a Responsible Officer has actual knowledge thereof, or until notified in writing of such Event of Default. No provision of the Indenture or any other document related to the Indenture shall require the Trustee to risk or advance its own funds or otherwise incur any financial liability in the performance of its duties or the exercise of its rights under the Indenture. The Trustee will not be liable for any action taken or not taken by it in accordance with the direction of a majority (or other percentage provided for in the Indenture) in aggregate principal amount of Bonds outstanding relating to the exercise of any right, power or remedy available to the Trustee.

The Trustee will not be liable to the parties or deemed in breach or default under the Indenture if and to the extent its performance under the Indenture is prevented by reason of *force majeure*. The term "*force majeure*" means an occurrence that is beyond the control of the

Trustee and could not have been avoided by exercising due care. *Force majeure* shall include but not be limited to acts of God, terrorism, war, riots, strikes, fire, floods, earthquakes, epidemics or other similar occurrences.

The Trustee will not be liable in connection with the performance of its duties under the Indenture, except for its own negligence or willful misconduct.

Amendment or Supplement by Consent of Owners

The Indenture may be amended in writing by agreement between the District and the Trustee, but no such amendment or supplement shall (i) reduce the rate of interest evidenced by the Bonds or extend the time of payment of such interest or reduce the amount of principal thereof or extend the Maturity Date thereof without the prior written consent of the Owner thereof, or (ii) reduce the percentage of Owners of Bonds whose consent is required for the execution of any amendment of or supplement to the Indenture, or (iii) modify any rights or obligations of the Trustee without its prior written consent thereto.

The Indenture and the rights and obligations of the District, of the Trustee and the Owners of the Bonds may also be modified or amended from time to time and at any time by a Supplemental Indenture which the District and the Trustee may enter into, but without the consent of any Bond Owners, the provisions of such Supplemental Indenture shall not materially adversely affect the interests of the Owners of the Bonds, including, without limitation, for any one or more of the following purposes:

(a) to add to the covenants and agreements of the District 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 District;

(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, or in regard to matters or questions arising under the Indenture, as the District may deem necessary or desirable;

(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 in effect after the date of the Indenture, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute;

(d) to make such additions, as may be necessary or desirable to assure exemption from federal income taxation of interest on the Bonds; or

(e) to authorize the issuance of Parity Obligations.

Defeasance

Any Outstanding Bonds shall be paid and discharged in any one or more of the following ways:

(a) by paying or causing to be paid the principal of and interest on such Bonds Outstanding, as and when the same become due and payable;

(b) by depositing with the Trustee, in trust, before maturity, money which, together with the amounts which are then on deposit in the Payment Fund and available therefor, is fully sufficient to pay such Bonds, including all principal and interest; or

(c) by depositing with the Trustee, under an escrow deposit and trust agreement, cash, non-callable Federal Securities or pre-refunded non-callable municipal obligations rated “AAA” and “Aaa” by S&P and Moody’s, respectively (or any combination thereof) (the “Defeasance Obligations”) in such amount as an Independent Certified Public Accountant shall determine will, together with the interest to accrue thereon and moneys then on deposit (or a pro rata share thereof) in the Payment Fund available therefor, together with the interest to accrue thereon, be fully sufficient to pay and discharge such Bonds (including all principal and interest) at or before their respective maturity dates.

Notwithstanding that some Bonds may not have been surrendered for payment, all obligations of the District and the Trustee under the Indenture with respect to such defeased Bonds shall cease and terminate, except only the obligation of the Trustee to pay or cause to be paid to the Owners of such Bonds all sums due thereon.

Unclaimed Moneys

Anything contained in the Indenture to the contrary notwithstanding, any money held by the Trustee in trust for the payment and discharge of the interest or principal of the Bonds which remains unclaimed for the lesser of the period ending one day prior to the date such money would escheat to the State or two (2) years after the date when the payments evidenced and represented by such Bonds have become payable, if such money was held by the Trustee at such date, or for the lesser of the period ending one day prior to the date such money would escheat to the State or two (2) years after the date of deposit of such money if deposited with the Trustee after the date when the interest and principal evidenced and represented by such Bonds have become payable, the Trustee will pay such amounts to the District as its absolute property free from trust, and the Trustee will thereupon be released and discharged with respect thereto and the Owners will look only to the District for interest and principal represented by such Bonds.

Bonds Insurance Policy Provisions

So long as no Bond Insurer Default shall have occurred and be continuing, the Bond Insurer shall at all times be deemed the sole Owner of the outstanding Bonds for the purposes of exercising any voting right or privilege or giving any consent or direction or taking any other action that the Owners of the Bonds are entitled to take pursuant to the Indenture. No grace period for a covenant default under the Indenture affecting the Bonds shall exceed 30 days or be extended for more than 60 days without the prior written consent of the Bond Insurer. No grace period shall be permitted for payment defaults on the Bonds. The selection of the maturities of Bonds to be redeemed shall be subject to the approval of the Bond Insurer. Any amendment or waiver of, or supplement or modification to, any provision of the Indenture that requires the consent of Owners of the Bonds or adversely affects the rights and interests of the Bond Insurer shall be subject to the prior written consent of the Bond Insurer. Each of the District and the Trustee covenant and agree to take such action as is necessary from time to time to preserve the priority of the pledge of the trust estate under applicable law.

If, on the third business day prior to the related Interest Payment Date, there is not on deposit in the Payment Fund, after making all transfers and deposits required hereunder,

moneys sufficient to pay the principal of and interest on the Bonds due on such Interest Payment Date, the Trustee shall give notice to the Bond Insurer and to the Bond Insurer's Fiscal Agent (if any) by telephone or telecopy of the amount of such deficiency by 12:00 noon, New York City time, on such business day. If, on the second business day prior to such Interest Payment Date, there continues to be a deficiency in the amount available to pay the principal of and interest on the Bonds due on such Interest Payment Date, the Trustee shall make a claim under the Bond Insurance Policy and give notice to the Bond Insurer and the Bond Insurer's Fiscal Agent (if any) by telephone of the amount of such deficiency, and the allocation of such deficiency between the amount required to pay interest on the Bonds and the amount required to pay principal of the Bonds, confirmed in writing to the Bond Insurer and the Bond Insurer's Fiscal Agent (if any) by 12:00 noon, New York City time, on such business day by filling in the form of Notice of Claim and Certificate delivered with the Bond Insurance Policy.

To the extent that the Bond Insurer makes any payment of principal of or interest on the Bonds, the Bond Insurer shall, in accordance with the terms of the Bond Insurance Policy, become subrogated to the rights of the Owner of such Bonds receiving such payment. Each obligation of the District to the Bond Insurer under this Indenture shall survive the discharge or termination hereof.

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 by the Issuer (as such terms are defined in the Bond Insurance Policy), whether or not the Bond Insurer has received a Notice of Nonpayment (as such term is defined in the Bond Insurance Policy) or a claim upon the Bond Insurance Policy.

Notwithstanding satisfaction of the other conditions to the issuance of additional parity bonds set forth in the Indenture, no such issuance may occur (A) if an event of default hereunder (or any event which, once all notice or grace periods have passed, would constitute such an event of default) exists unless such default shall be cured upon such issuance, and (B) unless the Reserve Fund is fully funded at the Reserve Requirement (including the proposed issue) upon the issuance of such additional parity bonds, in either case unless otherwise permitted by the Bond Insurer. In determining whether any amendment, consent, waiver or other action to be taken, or any failure to take action, under this Indenture would adversely affect the security for the Bonds or the rights of the Owners thereof, the Trustee shall consider the effect of any such amendment, consent, waiver, action or inaction as if there were no Bond Insurance Policy. No contract shall be entered into or any action taken by which the rights of the Bond Insurer or security for or sources of payment of the Bonds may be impaired or prejudiced in any material respect except upon obtaining the prior written consent of the Bond Insurer. The District shall not enter into an interest rate exchange product with respect to the Bonds without the prior written consent of the Bond Insurer.

Bond Reserve Policy Provisions.

Upon any payment by the Bond Insurer under the Bond Reserve Policy, the Bond Insurer shall furnish to the District written instructions as to the manner in which payment of amounts owed to the Bond Insurer as a result of such payment under the Bond Reserve Policy shall be made. Amounts drawn under the Bond Reserve Policy shall be used solely to pay scheduled payments of principal and interest due on the Bonds. All cash and investments in the Reserve Fund shall be transferred to the Payment Fund for payment of debt service on the Bonds before any drawing may be made on the Bond Reserve Policy or on any alternative credit instrument on deposit therein. Payment of any Policy Costs shall be made prior to

replenishment of any such cash amounts in the Reserve Fund. Draws on all alternative credit instruments on deposit therein (including the Bond Reserve Policy) on which there is available coverage shall be made on a pro rata basis (calculated by reference to available coverage under each such alternative credit instrument) after applying available cash and investments in the Reserve Fund. Payment of Policy Costs and reimbursement of amounts with respect to such alternative credit instruments shall be made on a pro-rata basis prior to replenishment of any cash drawn from the Reserve Fund. For the avoidance of doubt, "available coverage" means the coverage then available for disbursement pursuant to the terms of the applicable alternative credit instrument without regard to the legal or financial ability or willingness of the provider of such instrument to honor a claim or draw thereon or the failure of such provider to honor any such claim or draw.

If the District shall fail to pay any Policy Costs in accordance with the requirements hereof, the Bond Insurer shall be entitled to exercise any and all legal and equitable remedies available to it, including those provided under the Indenture, other than (i) acceleration of the maturity of the Bonds or (ii) remedies which would adversely affect owners of the Bonds. The Trustee shall ascertain the necessity for a claim upon the Bond Reserve Policy in accordance with the provisions of this Section and shall provide notice to the Bond Insurer in accordance with the terms of the Bond Reserve Policy at least five business days prior to each date upon which interest or principal is due on the Bonds.

Benefits of Indenture Limited to Parties

Nothing contained in the Indenture, expressed or implied, is intended to give to any person other than the District, the Trustee and the Owners any claim, remedy or right under or pursuant to the Indenture, and any agreement, condition, covenant or term contained in the Indenture required to be observed or performed by or on behalf of the District shall be for the sole and exclusive benefit of the Trustee and the Owners.

Waiver of Personal Liability

No board member, officer or employee of the District shall be individually or personally liable for the payment of the interest or principal the Bonds, but nothing contained in the Indenture shall relieve any board member, officer or employee of the District from the performance of any official duty provided by any applicable provisions of law or by the Indenture.

Investments

Amounts on deposit in any fund or account created pursuant to the Indenture shall be invested in Permitted Investments which will, as nearly as practicable, mature on or before the dates when such money is anticipated to be needed for disbursement under the Indenture, in accordance with such written directions as the District may from time to time provide to the Trustee. The Trustee and any affiliates may act as sponsor, advisor, principal or agent in the acquisition or disposition of any such investment. The Trustee will not be liable or responsible for any loss suffered in connection with any such investment made by it under. Interest or profit received on such investments shall be deposited to the Payment Fund. In computing the amount in any fund or account, Permitted Investments shall be valued at market value, exclusive of accrued interest. Except for investment agreements and repurchase agreements, if at any time after investment therein a Permitted Investment ceases to meet the criteria set forth in the definition of Permitted Investments and such obligation, aggregated with other non-

conforming investments, exceeds ten percent (10%) of invested funds, such Permitted Investment shall be sold or liquidated.

California Law

The Indenture shall be construed and governed in accordance with the laws of the State of California.

Payments Due on Days that are not Business Days

In any case where the date fixed for payment of principal or interest on the Bonds or the date fixed for redemption of Bonds shall not be a Business Day, then payment of such principal or interest or redemption price shall be made on the next succeeding Business Day, with the same force and effect as if made on such non-Business Day and no interest shall accrue on such amounts from and after such non-Business Day.

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APPENDIX B

GENERAL INFORMATION REGARDING THE CITY OF BAKERSFIELD AND COUNTY OF KERN

The following information concerning the City of Bakersfield (the "City") and County of Kern (the "County") are included only for the purpose of supplying general information regarding the area of the City and County. The Bonds are not a debt of the City, County, the State or any of its political subdivisions, and neither the City, County, the State nor any of its political subdivisions is liable therefor.

General Description and Background

The District is located in the City which is the largest city in the County and serves as the county seat. The County is located approximately 100 miles north of Los Angeles County in the southern central valley of California. The County is the third largest county in California, covering 8,073 square miles. Surrounded by three major mountain ranges, the County has three climatic zones; valley, mountain and high desert. Bordered on the west by San Luis Obispo and Santa Barbara Counties, to the east by San Bernardino County and on the north by Kings, Tulare and Inyo Counties, the County measures 120 miles east to west and 67 miles north to south.

Population

The following table lists population figures for the City, County and the State for the last five calendar years.

CITY OF BAKERSFIELD, KERN COUNTY AND STATE OF CALIFORNIA Population Estimates Calendar Years 2008 through 2012 (As of January 1)

Calendar Year	City of Bakersfield	Kern County	State of California
2008	327,650	815,023	36,704,375
2009	333,847	827,475	36,966,713
2010	347,029	827,074	37,223,900
2011	350,020	844,480	37,427,946
2012	354,480	850,006	37,678,563

Source: State Department of Finance.

Employment and Industry

The following table shows the average annual estimated numbers of wage and salary workers by industry for the County for the years 2007 through 2011 (the latest year for which such information is available). Figures do not include proprietors, the self-employed, unpaid volunteers or family workers, domestic workers in households, and persons in labor management disputes.

Kern County Civilian Labor Force, Employment and Unemployment Calendar Years 2007 through 2011 Annual Averages

	2007	2008	2009	2010	2011
<u>Civilian Labor Force</u> ⁽¹⁾	345,700	359,600	363,100	373,300	382,000
Employment	317,400	324,500	311,100	314,100	325,100
Unemployment	28,300	35,100	52,100	59,200	56,900
Unemployment Rate	8.2%	9.8%	14.4%	15.9%	14.9%
<u>Wage and Salary Employment:</u> ⁽²⁾					
Agriculture	45,600	49,600	42,800	44,600	47,800
Logging and Mining	9,800	10,700	9,800	10,200	12,000
Construction	18,400	16,500	13,100	12,700	14,300
Manufacturing	13,300	13,700	13,200	13,000	13,400
Wholesale Trade	8,000	7,700	7,200	8,000	7,900
Retail Trade	28,900	27,400	25,600	25,800	26,400
Transportation, Warehousing, Utilities	9,600	9,600	8,900	8,400	8,500
Information	2,800	3,000	2,800	2,700	2,600
Finance and Insurance	5,700	5,500	5,400	5,100	5,200
Professional and Business Services	26,100	25,000	23,700	23,800	24,800
Educational and Health Services	24,500	25,500	25,800	25,800	26,500
Leisure and Hospitality	21,500	21,500	20,900	20,500	20,500
Other Services	6,700	7,000	6,700	6,600	6,600
Federal Government	9,500	9,800	10,200	10,900	10,700
State Government	9,400	10,000	10,100	9,800	9,700
Local Government	41,000	41,700	40,400	39,900	39,200

Source: State of California Employment Development Department.

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

(2) Industry employment is by place of work; excludes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

Major Employers

The table below lists the largest manufacturing and non-manufacturing employers within the County as of January 2012:

KERN COUNTY Major Employers January 2012 (Listed Alphabetically)

Employer Name	Location	Industry
Bakersfield Memorial Hospital	Bakersfield	Hospitals
Catholic Healthcare West	Bakersfield	Hospitals
Chevron Corp.	Bakersfield	Oil Refining
Edwards Air Force Base	Edwards AFB	Federal Government-National Security
Foster Care Human Services	N/A	Foster Care
Grimmway Farms	Arvin	Fruit & Produce Packers
Grimmway Personnel	Arvin	Personnel Consultants
Kern County School Supt	Bakersfield	Schools
Kern Medical Ctr	Bakersfield	Hospitals
Marko Zaninovich Inc	McFarland	Fruits & Vegetables-Growers & Shippers
Nabors Well Service Co.	Bakersfield	Oil Well Services
Naval Air Warfare Ctr	Ridgecrest	Federal Government-National Security
Paramount Farms	Lost Hills	Fruits & Vegetables – Growers & Shippers
Robertsons Ready Mix	California City	Concrete Additives (Whls)
San Joaquin Comm. Hospital	Bakersfield	Hospitals
State Farm Insurance	Bakersfield	Management Services
Sun Pacific Farming	Bakersfield	General Farming
Sun Pacific Growers	Bakersfield	Fruits & Vegetables-Growers & Shippers
US Borax	Boron	Mining Companies
US Naval Air Weapons Station	Ridgecrest	Federal Government-National Security
US Navy Public Affairs Office	Ridgecrest	Federal Government-National Security
Vasinda Investments Inc.	Bakersfield	Home Health Service
Wasco State Prison Reception	Wasco	State Govt-Correctional Institutions
Wm Bolthouse Farms Inc.	Bakersfield	Vegetable Farms
Wood Group PSN	Tupman	Petroleum Products-Manufacturers

Source: State of California Employment Development Department, extracted from The America's Labor Market Information System (ALMIS) Employer Database.

Commercial Activity

In 2009, the State Board of Equalization converted the business codes of sales and use tax permit holders to North American Industry Classification System codes. As a result of the coding change retail stores data for 2009 is not comparable to that of prior years.

During calendar year 2010, total taxable sales transactions in the City were reported to be \$4,667,745,000, a 5.54% increase over the total taxable transactions of \$4,422,123,000 that were reported in the City during calendar year 2009. Summaries of historic taxable sales within the City during the past five years for which data is available and the 1st quarter of 2011 are shown in the following table. Annual figures are not yet available for 2011.

CITY OF BAKERSFIELD
Taxable Retail Sales
Number of Permits and Valuation of Taxable Sales Transactions
(Dollars in Thousands)

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2006	4,145	4,625,005	6,901	\$5,750,771
2007	4,150	4,500,779	6,965	5,590,533
2008	4,183	4,055,211	7,148	5,314,000
2009 ⁽¹⁾	4,771	3,491,649	6,929	4,422,123
2010 ⁽¹⁾	5,061	3,644,874	7,189	4,667,745
2011 ⁽¹⁾	5,254	1,009,654 ⁽²⁾	7,334	1,347,225 ⁽²⁾

Source: California State Board of Equalization, Taxable Sales in California (Sales & Use Tax).

(1) Retail stores data not comparable to prior years.

(2) Represents 2nd Quarter of 2011 only. Annual figures for remainder of 2011 and for 2012 are not yet available.

During calendar year 2010, total taxable sales transactions in the County were reported to be \$11,057,910,000 a 11.3% increase over the total taxable transactions of \$9,932,101,000 that were reported in the County during calendar year 2009. Summaries of historic taxable sales within the County during the past five years for which data is available and the 1st quarter of 2011 are shown in the following table. Annual figures are not yet available for 2011.

KERN COUNTY
Taxable Retail Sales
Number of Permits and Valuation of Taxable Sales Transactions
(Dollars in Thousands)

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2006	9,352	\$7,595,418	16,402	\$11,975,693
2007	9,479	7,510,741	16,679	11,874,302
2008	9,404	6,981,166	16,917	12,085,853
2009 ⁽¹⁾	10,327	6,026,769	15,331	9,932,101
2010 ⁽¹⁾	10,867	6,379,778	15,845	11,057,910
2011 ⁽¹⁾	10,803	1,810,053 ⁽²⁾	15,691	3,460,794 ⁽²⁾

Source: California State Board of Equalization, Taxable Sales in California (Sales & Use Tax).

(1) Retail stores data not comparable to prior years.

(2) Represents 2nd Quarter of 2011 only. Annual figures for remainder of 2011 and for 2012 are not yet available.

Construction Activity

The following tables show a five year summary from calendar year 2007 to 2011 and the 2nd Quarter of 2012 of the valuation of building permits issued in the City and the County.

CITY OF BAKERSFIELD Total Building Permit Valuations (Valuations in Thousands)

	2007	2008	2009	2010	2011	2012 ⁽¹⁾
<u>Permit Valuation</u>						
New Single-family	\$273,107	\$194,456	\$225,635	\$166,160	\$92,312	97,928
New Multi-family	23,680	46,863	6,6393	28,824	0	4,572
Res. Alterations/Additions	19,777	18,603	17,495	17,894	14,672	8,348
Total Residential	316,565	259,923	249,770	212,878	106,982	110,848
New Commercial	64,516	53,589	48,984	8,469	41,378	8,614
New Industrial	0	0	0	0	0	0
New Other	19,339	11,640	12,496	6,306	635	319
Com. Alterations/Additions	66,867	63,138	60,425	67,913	45,099	31,829
Total Nonresidential	\$150,732	\$128,369	\$121,907	\$82,689	\$87,112	\$40,762
<u>New Dwelling Units</u>						
Single Family	1,820	991	1,087	816	422	370
Multiple Family	312	526	89	258	0	50
TOTAL	2,132	1,517	1,176	1,074	422	420

Source: California Homebuilding Foundation.

(1) Data through July 2012.

KERN COUNTY Total Building Permit Valuations (Valuations in Thousands)

	2007	2008	2009	2010	2011	2012 ⁽¹⁾
<u>Permit Valuation</u>						
New Single-family	\$513,624	\$280,091	\$298,468	\$229,773	\$135,745	130,406
New Multi-family	67,108	68,402	9,989	49,961	17,978	12,872
Res. Alterations/Additions	62,607	49,158	36,794	42,433	39,903	18,788
Total Residential	643,341	397,651	345,251	322,168	193,626	162,066
New Commercial	105,882	102,954	67,991	12,015	80,703	35,140
New Industrial	11,178	31,711	11,287	4,869	35,209	13,900
New Other	78,057	49,236	44,831	37,074	11,342	5,016
Com. Alterations/Additions	107,441	129,373	91,438	117,575	109,586	51,649
Total Nonresidential	\$302,560	\$313,275	\$215,548	\$171,534	\$236,840	\$105,705
<u>New Dwelling Units</u>						
Single Family	3,669	1,627	1,676	1,313	737	580
Multiple Family	939	931	192	607	257	132
TOTAL	4,608	2,558	1,868	1,920	994	712

Source: California Homebuilding Foundation.

(1) Data through July 2012.

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APPENDIX C

AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR FISCAL YEAR 2011/12

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NORTH OF RIVER SANITARY DISTRICT NO. 1

FINANCIAL REPORT

June 30, 2012

NORTH OF RIVER SANITARY DISTRICT NO. 1

ORGANIZATION DATA

JUNE 30, 2012

ELECTED OFFICERS

Gary McKibbin, President

Steven M. Ruetters, Vice-President

Samuel C. Scoles, Director

Steve J. Shoffner, Director

Sandra R. Murphy, Director

ADMINISTRATION

LaRue Griffin, District Manager & Secretary-Treasurer

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Certified Public Accountants
Business & Personal Consultants

Member of the McGladrey Alliance

Member of AICPA Division for Firms
Private Companies Practice Section

PATRICK PAGGI

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
North of River Sanitary District No. 1
Bakersfield, California

We have audited the accompanying statements of net assets of the **North of River Sanitary District No. 1**, as of June 30, 2012 and 2011 and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the **North of River Sanitary District No. 1's** management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of **North of River Sanitary District No. 1's** internal control over financial reporting. Accordingly, we express no such opinion. 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the **North of River Sanitary District No. 1** as of June 30, 2012 and 2011, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2012 on our consideration of the **North of River Sanitary District No. 1's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 and 4 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted on inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financials statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The schedules of functional expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Daniells Phillips Vaughan & Bock

Bakersfield, California
November 13, 2012

NORTH OF RIVER SANITARY DISTRICT NO. 1

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the **North of River Sanitary District No. 1**, we offer readers of the District's financial statements this narrative overview and analysis of the District's financial performance during the fiscal year ended June 30, 2012. Please read it in conjunction with the District's financial statements, which will follow this section.

Using This Annual Report

This annual report includes this management's discussion and analysis report, the independent auditor's report and the basic financial statements of the District. The basic financial statements consist of a series of financial statements. The statements of net assets, the statements of revenues, expenses and changes in net assets and the statements of cash flows provide information about the activities of the District. The basic financial statements also include various footnote disclosures, which further describe District activities. In addition, this report presents certain supplementary information.

Required Financial Statements

The financial statements of the District report information of the District using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The statement of net assets includes all of 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). It also provides the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses and changes in net assets. This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the statement of cash flows. This statement reports cash resulting from operations, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Highlights

- The largest portion of the District's assets is its investment in capital assets. The District uses these assets to provide service and consequently, these assets are not available to liquidate liabilities or other spending.
- Current assets as of June 30, 2012 include approximately \$21.3 million in cash, maintained principally in County of Kern Treasury accounts and a U S Bank reserve fund account in connection with the outstanding bonds.
- Operating revenues for the year ended June 30, 2012 consist principally of sewer service charges and connection fees. Operating revenues increased 17% primarily due to a substantial increase in connection fees.

NORTH OF RIVER SANITARY DISTRICT NO. 1

MANAGEMENT'S DISCUSSION AND ANALYSIS

Condensed Financial Statements

	2012	2011	Variance
Current and other assets	\$ 22,354,090	\$ 20,571,213	\$ 1,782,877
Capital assets, net	26,707,367	27,187,402	(480,035)
Total assets	<u>\$ 49,061,457</u>	<u>\$ 47,758,615</u>	<u>\$ 1,302,842</u>
Current liabilities	\$ 1,791,140	\$ 1,817,106	\$ (25,966)
Long-term liabilities	13,289,116	14,510,969	(1,221,853)
Total liabilities	<u>15,080,256</u>	<u>16,328,075</u>	<u>(1,247,819)</u>
Net assets:	33,981,201	31,430,540	2,550,661
Total net assets	<u>\$ 49,061,457</u>	<u>\$ 47,758,615</u>	<u>\$ 1,302,842</u>
Operating revenues	\$ 5,438,983	\$ 4,643,770	\$ 795,213
Operating expenses	2,718,655	3,050,341	(331,686)
Operating income	<u>2,720,328</u>	<u>1,593,429</u>	<u>1,126,899</u>
Non-operating revenues (expenses)			
Interest income	165,434	149,786	15,648
All other revenues	207,009	196,140	10,869
Interest (expense)	(542,110)	(573,155)	31,045
	<u>(169,667)</u>	<u>(227,229)</u>	<u>57,562</u>
Change in net assets	<u>\$ 2,550,661</u>	<u>\$ 1,366,200</u>	<u>\$ 1,184,461</u>

Capital Assets and Long-Term Debt

During the year ended June 30, 2012, the District invested \$722,075 in additions to capital assets. This amount included equipment and a treatment plant expansion project.

The District's long-term debt included 2003 Refunding Revenue Bonds and a revolving fund loan funded by the State Water Resources Control Board. These obligations were reduced by approximately \$1,255,000 during the year ended June 30, 2012 through scheduled principal payments plus approximately \$50,000 amortization of bond issuance costs. There were no other changes to the debt structure for the year.

Economic Factors

The local building economy has dropped significantly from previous years resulting in a slower rate of new accounts. District operating revenues continue to remain flat due to the slow building industry. Plant expansion will continue to be monitored to serve any changes in growth.

Contacting the District's Financial Management

This financial report is designed to provide the Board, our customers, and creditors with a general overview of the District's accountability for the assets it receives and manages.

If you have questions about this report or need additional information, please contact LaRue Griffin, District Manager, at 204 Universe Avenue, Bakersfield, California 93308.

NORTH OF RIVER SANITARY DISTRICT NO. 1

STATEMENTS OF NET ASSETS

June 30, 2012 and 2011

	2012	2011
ASSETS		
Current Assets		
Cash and cash equivalents (Note 2)	\$ 21,269,625	\$ 20,135,228
Accounts receivable	188,311	258,035
Accrued interest receivable	32,385	30,833
Prepaid expenses	50,464	38,780
Total current assets	21,540,785	20,462,876
Property and Equipment (Note 3)	26,707,367	27,187,402
Other Assets		
Investments (Note 2)	813,305	108,337
Total assets	\$ 49,061,457	\$ 47,758,615
LIABILITIES AND NET ASSETS		
Current Liabilities		
Current maturities of long-term debt (Note 4)	\$ 1,221,851	\$ 1,204,557
Accounts payable	233,302	124,360
Accrued interest payable	190,966	208,622
Accrued expenses	145,021	279,567
Total current liabilities	1,791,140	1,817,106
Long-term Debt, less current maturities (Note 4)	13,289,116	14,510,969
Net Assets		
Invested in capital assets, net of related debt	12,196,400	11,471,876
Unrestricted		
Designated (Note 5)	17,398,533	17,398,533
Other	4,386,268	2,560,131
Total net assets	33,981,201	31,430,540
Total liabilities and net assets	\$ 49,061,457	\$ 47,758,615

See Notes to the Financial Statements.

NORTH OF RIVER SANITARY DISTRICT NO. 1

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Years Ended June 30, 2012 and 2011

	2012	2011
Operating Revenue:		
Service charges	\$ 5,438,983	\$ 4,643,770
Operating Expenses:		
Sewage treatment and disposal	1,169,399	1,203,219
Depreciation and amortization	1,087,372	1,057,330
Sewage collection	589,082	873,125
General and administration	528,726	606,702
Shafter cost sharing (Note 7)	(655,924)	(690,035)
	<u>2,718,655</u>	<u>3,050,341</u>
Operating income	<u>2,720,328</u>	<u>1,593,429</u>
Non-operating Revenues and (Expenses):		
Property taxes	167,755	174,804
Interest income	165,434	149,786
Other income	39,068	38,655
Realized and unrealized gain (loss) on investments	186	(8,449)
(Loss) on sale of property and equipment	-	(8,870)
Interest (expense)	(542,110)	(573,155)
	<u>(169,667)</u>	<u>(227,229)</u>
Change in net assets	<u>2,550,661</u>	<u>1,366,200</u>
Net assets, beginning	<u>31,430,540</u>	<u>30,064,340</u>
Net assets, ending	<u>\$ 33,981,201</u>	<u>\$ 31,430,540</u>

See Notes to the Financial Statements.

NORTH OF RIVER SANITARY DISTRICT NO. 1

STATEMENTS OF CASH FLOWS Years Ended June 30, 2012 and 2011

	2012	2011
Cash Flows From Operating Activities		
Receipts from users	\$ 5,508,707	\$ 4,693,436
Payments for administration services	(540,408)	(666,191)
Payments for suppliers for goods and services	(1,128,163)	(1,278,893)
Net cash provided by operating activities	3,840,136	2,748,352
Cash Flows From Investing Activities		
Purchases of property and equipment	(556,750)	(639,882)
Proceeds from sale of investments	-	44,175
Purchase of investments	(704,968)	-
Investment income received	163,883	167,961
Net cash (used in) investing activities	(1,097,835)	(427,746)
Cash Flows From Financing Activities		
Principal (payments) on long-term debt	(1,255,147)	(1,218,291)
Proceeds from property taxes	167,755	174,804
Interest (payments)	(559,767)	(573,155)
Other non-operating income	39,255	33,840
Net cash (used in) financing activities	(1,607,904)	(1,582,802)
Net increase in cash and cash equivalents	1,134,397	737,804
Cash and cash equivalents:		
Beginning	20,135,228	19,397,424
Ending	\$ 21,269,625	\$ 20,135,228
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 2,720,328	\$ 1,593,429
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	1,087,372	1,057,330
Changes in working capital components:		
(Increase) decrease in:		
Accounts receivable	69,724	49,666
Prepaid expenses	(11,684)	10,339
Increase (decrease) in:		
Accounts payable	108,942	38,403
Accrued expenses	(134,546)	(815)
Net cash provided by operating activities	\$ 3,840,136	\$ 2,748,352

See Notes to the Financial Statements.

NORTH OF RIVER SANITARY DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Nature of Activities: North of River Sanitary District No.1 (the "District") is a sanitary district organized and existing under the laws for special districts in the State of California. The District's primary source of revenue is service charges, which are included in property owner's tax rolls and are administered by the County of Kern. The District's service area is principally North Bakersfield, California, in the County of Kern.

Reporting entity: The District has no oversight responsibility for any other governmental entity, nor is the District's operation a component unit of any other governmental entity. Therefore the reporting entity consists only of District operations.

The District operates as an enterprise fund. An enterprise fund accounts for operations that are financed and operated similar to private business enterprises, where the intent is that the costs of providing services to contracted landowners on a continuing basis be financed or recovered primarily through user charges.

Basis of Accounting: The accompanying financial statements have been prepared on the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recognized when incurred.

Under GASB 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting", enterprise funds, such as the District, have the option of consistently following or not following pronouncements issued by the Financial Accounting Standards Board (FASB) subsequent to November 30, 1989. The District has elected not to follow FASB standards issued after that date, unless such standards are specifically adopted by the Governmental Accounting Standards Board (GASB).

Budget: Although a budget is adopted annually, it is used primarily as a guideline for the Board in regulating expenditures. There is no legal requirement to stay within the adopted budget in the payment or classification of expenditures.

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

Cash and cash equivalents: Cash and cash equivalents consist of cash on hand and in banks and short-term, highly liquid investments with a maturity of three months or less, which includes money market funds and cash management pools in County Treasuries.

Property and equipment: Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from 5 – 50 years. Maintenance and repairs which do not increase the useful life of the assets are charged to expense as incurred. Major renewals and betterments are capitalized. When items of property or equipment are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in income.

Compensated absences: District employees accumulate vacation leave hours and sick leave hours for subsequent use or for payment upon termination or retirement. Accumulated vacation pay and sick pay are accrued when earned by employees, and are included as liabilities in the statements of net assets.

NORTH OF RIVER SANITARY DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS

Property tax: Property taxes attach as an enforceable lien on property as of March 1. Taxes are levied on July 1 and are due and payable in two installments on November 15 and March 15. Unsecured property taxes are payable in one installment on or before August 31. The County of Kern bills and collects the taxes for the District. Property taxes are recognized as revenue when they are levied.

Net assets: The basic financial statements utilize a net assets presentation. Net assets are categorized as invested capital assets (net of related debt), restricted and unrestricted.

- *Invested In Capital Assets, Net of Related Debt* - This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- *Restricted Net Assets* - This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted Net Assets* - This category represents net assets of the District, not restricted for any project or other purpose.

Subsequent Events: Management has evaluated subsequent events through November 13, 2012, the date on which the financial statements were available to be issued. There were no subsequent events identified by management which would require disclosure in the financial statements.

Note 2. Cash and Investments

Cash and cash equivalents consists of the following at June 30, 2012 and 2011:

	2012	2011
Cash in County Treasury	\$ 21,072,494	\$ 19,231,703
U.S. Bank	182,466	888,800
Chase/Washington Mutual Bank checking	14,311	14,311
Petty cash	354	414
	<u>\$ 21,269,625</u>	<u>\$ 20,135,228</u>

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. The District's investments have a maturity of 5-10 years. The District's investments in the County of Kern Treasury have a maturity of three months or less and are therefore, classified as cash equivalents.

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. The District's investments consist of U.S. Government Sponsored Enterprise Securities which have a AAA rating at June 30, 2012, and have no minimum legal rating required by the California Government Code. The County of Kern does not have a rating provided by a nationally recognized statistical rating organization, and they are exempt from disclosure due to credit risk.

NORTH OF RIVER SANITARY DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS

Investments Authorized by the District's Investment Policy

The District's investment policy requires compliance with current state law and current legislation.

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 California Government Code does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unity). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code does not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investments in securities through the use of mutual funds or government investment pools.

The District maintains cash in the Kern County Treasury which pools these funds with those of other districts in the county and invests the cash. These pooled funds are carried at cost which approximates fair value. Interest earned is deposited quarterly and any investment losses are proportionately shared by all entities in the pool.

The District also has investments held in the 2003 Refunding Revenue Bonds Reserve Fund with U.S. Bank, the trustee, and are stated at estimated fair market value at June 30, 2012 and 2011 as follows:

	2012	2011
FNMA MTN, 1.0%, 09/23/2013 maturity date	\$ 151,250	\$ -
FHLMC MTN, 0.75%, 3/28/2013 maturity date	150,542	-
FNMA MTN, 0.5%, 10/30/2012 maturity date	148,170	-
FNMA MTN, 1.25%, 2/27/2014 maturity date	147,423	-
FNMA MTN, 0.875%, 8/28/2014 maturity date	146,457	-
GNMA Pass Thru Cert, 6.0%, 4/15/2014 maturity date	31,413	52,002
GNMA Pass Thru Cert, 4.5%, 5/15/2019 maturity date	25,459	33,719
GNMA Pass Thru Cert, 6.0%, 4/15/2014 maturity date	12,591	22,616
	<u>\$ 813,305</u>	<u>\$ 108,337</u>

NORTH OF RIVER SANITARY DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS

Note 3. Property and Equipment

Capital assets activity for the years ended June 30, 2012 and 2011 was as follows:

	Balances June 30, 2011	Additions	Deletions	Balances June 30, 2012
Land	\$ 1,567,774	\$ -	\$ -	\$ 1,567,774
7th Standard plant	28,743,840	8,154	-	28,751,994
Transmission system	613,128	35,322	-	648,450
Collection system	4,080,888	130,002	-	4,210,890
Extraction system	49,617	-	-	49,617
Buildings and fixtures	925,114	-	-	925,114
Equipment	2,817,631	-	-	2,817,631
Office equipment	42,079	-	-	42,079
Fencing and roads	38,399	-	-	38,399
Pumps, pipelines, wells	1,042,541	-	-	1,042,541
Motor vehicles	307,877	202,636	-	510,513
Construction in progress	61,770	345,961	165,323	242,408
	40,290,658	722,075	165,323	40,847,410
Less: accumulated depreciation	(13,103,256)	(1,036,787)	-	(14,140,043)
	<u>\$ 27,187,402</u>	<u>\$ (314,712)</u>	<u>\$ 165,323</u>	<u>\$ 26,707,367</u>

	Balances June 30, 2010	Additions	Deletions	Balances June 30, 2011
Land	\$ 1,567,774	\$ -	\$ -	\$ 1,567,774
7th Standard plant	28,732,339	53,423	41,922	28,743,840
Transmission system	601,686	11,442	-	613,128
Collection system	4,069,102	12,299	513	4,080,888
Extraction system	49,617	-	-	49,617
Buildings and fixtures	925,114	-	-	925,114
Equipment	2,804,225	14,531	1,125	2,817,631
Office equipment	42,079	-	-	42,079
Fencing and roads	32,074	6,325	-	38,399
Pumps, pipelines, wells	744,712	328,215	30,386	1,042,541
Motor vehicles	114,078	193,799	-	307,877
Construction in progress	-	61,770	-	61,770
	39,682,800	681,804	73,946	40,290,658
Less: accumulated depreciation	(12,119,668)	(1,006,742)	23,154	(13,103,256)
	<u>\$ 27,563,132</u>	<u>\$ (324,938)</u>	<u>\$ 50,792</u>	<u>\$ 27,187,402</u>

NORTH OF RIVER SANITARY DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS

Note 4. Long-Term Debt

Long-term debt consists of the following at June 30, 2012 and 2011

	2012	2011
State Water Resources Control Board, annual installments of \$837,999 including interest at 2.6%, due August 2019	\$ 5,983,030	\$ 6,648,177
Refund Revenue Bonds 2003, net of issuance cost, interest payable at rates ranging from 2%-4.4% due in May and November, secured by funds held by the Trustee, due November 2021	8,527,937	9,067,349
	<u>\$ 14,510,967</u>	<u>\$ 15,715,526</u>

Schedules of changes in long-term debt for the years ended June 30, 2012 and 2011 are shown below:

	Balances June 30, 2011	Additions	Deletions	Balances June 30, 2012	Due Within One Year
State Water Resources Control Board Revolving Fund Loan	\$ 6,648,177	\$ -	\$ 665,147	\$ 5,983,030	\$ 682,440
Refund Revenue Bonds Less Bond Issuance Cost, Net	9,725,000	-	590,000	9,135,000	590,000
	(657,651)	-	(50,588)	(607,063)	(50,589)
	9,067,349	-	539,412	8,527,937	539,411
	<u>\$ 15,715,526</u>	<u>\$ -</u>	<u>\$ 1,204,559</u>	<u>\$ 14,510,967</u>	<u>\$ 1,221,851</u>

	Balances June 30, 2010	Additions	Deletions	Balances June 30, 2011	Due Within One Year
State Water Resources Control Board Revolving Fund Loan	\$ 7,296,468	\$ -	\$ 648,291	\$ 6,648,177	\$ 665,146
Refund Revenue Bonds Less Bond Issuance Cost, Net	10,295,000	-	570,000	9,725,000	590,000
	(708,239)	-	(50,588)	(657,651)	(50,589)
	9,586,761	-	519,412	9,067,349	539,411
	<u>\$ 16,883,229</u>	<u>\$ -</u>	<u>\$ 1,167,703</u>	<u>\$ 15,715,526</u>	<u>\$ 1,204,557</u>

NORTH OF RIVER SANITARY DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS

Aggregate maturities required on long-term debt as of June 30, 2012 are due in futures years as follows:

Years ending June 30,	Principal	Interest	Total
2013	\$ 1,292,440	\$ 523,557	\$ 1,815,997
2014	1,330,184	485,073	1,815,257
2015	1,373,388	420,584	1,793,972
2016	1,412,067	401,905	1,813,972
2017	1,461,230	343,858	1,805,088
2018-2022	6,388,721	972,560	7,361,281
2023-2027	1,860,000	82,720	1,942,720
	15,118,030	3,230,257	18,348,287
Less bond issuance cost	(607,063)	-	(607,063)
	<u>\$ 14,510,967</u>	<u>\$ 3,230,257</u>	<u>\$ 17,741,224</u>

Note 5. Designated Net Assets

The Board of Directors has internally designated certain net assets to be set aside for specific purposes. The net asset designations, defined by the District as cash and investments segregated for these specific purposes are as follows at June 30, 2012 and 2011:

	2012	2011
Reserve for capital outlay	\$ 12,326,395	\$ 12,326,395
Reserve for capital improvement	3,000,000	3,000,000
Reserve for operations and maintenance	1,000,000	1,000,000
Reserve for repayment of refunding revenue bonds 2003	997,138	997,138
Reserve for rate stabilization	75,000	75,000
	<u>\$ 17,398,533</u>	<u>\$ 17,398,533</u>

Note 6. Pension Plan

Plan description: The District contributes to the Kern County Employees' Retirement Association (KCERA), a cost-sharing multiple-employer defined benefit pension plan. KCERA provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to Plan members and beneficiaries. State statutes assign the authority to establish and amend benefit provisions to the Kern County Board of Supervisors. KCERA issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to KCERA, 1115 Truxtun Avenue, Third Floor, Bakersfield, California 93301-4639 or by calling (661) 868-3790.

Funding policy: Plan members are required to contribute a percentage of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current rate is 32% of annual covered payroll. The contribution requirements of Plan members and the District are established and may be amended by the Kern County Board of Supervisors.

Annual pension cost: The District's contributions to the Plan for the years ended June 30, 2012 and 2011 were \$232,787 and \$246,610, respectively, which were equal to the required contributions.

NORTH OF RIVER SANITARY DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS

The information presented in the required supplementary schedules was determined as part of the actuarial valuations as of the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	June 30, 2011
Actuarial cost method	Entry age funding method
Amortization method	Level percent of salary, closed
Remaining amortization period	27 years
Asset valuation method	5 year smoothed market value

Actuarial assumptions:	
Investment rate of return	7.75%
Projected salary increases	Rates vary by service
Includes inflation at	4.5%
Annual increase in system benefits cap	3.25%

Three-Year Trend Information for KCERA Schedule of Employer Contributions

Fiscal Year	Required Contribution	Percentage Contributed
2011	\$ 171,093,000	100%
2010	151,127,000	100%
2009	138,815,000	100%

Required Supplementary Information:

Schedule of Funding Progress (Net SRBR and Contingency Reserve) (in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Actuarial Accrued Liability Overfunded (Unfunded)	Funded Ratio	Annual Covered Payroll	Overfunded (Unfunded) Actuarial Accrued Liability As Percentage of Covered Payroll
6/30/11	\$ 2,839,747	\$ 4,672,348	\$ (1,832,601)	0.608	\$ 539,836	(339.5%)
6/30/10	2,794,644	4,457,038	(1,662,394)	0.627	559,380	(297.2%)
6/30/09	2,780,215	4,205,200	(1,424,985)	0.661	559,872	(254.5%)

NORTH OF RIVER SANITARY DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS

Note 7. City of Shafter Cost Sharing

The City of Shafter participates in certain cost sharing arrangements with the District. Under various agreements, the City of Shafter reimburses the District for its calculated share of District debt service obligations, treatment plant operating expenses and certain treatment plant fixed asset additions. Amounts received by the District under these arrangements for the years ended June 30, 2012 and 2011 were as follows:

	2012	2011
Debt service participation	\$ 362,154	\$ 361,919
Treatment plant cost reimbursement	223,674	258,020
Additional pipeline capacity reimbursement	70,096	70,096
	<u>\$ 655,924</u>	<u>\$ 690,035</u>

Note 8. Deferred Compensation

The District provides investment opportunities to all employees through an IRC 457 Deferred Compensation Plan (Plan) to defer a portion of their income, on a pre-tax basis. Employee contributions to the Plan are limited to the maximum allowed by law, and investment recordkeeping fees and mutual fund fees are levied directly against each participating employee's account balance.

Note 9. Other Post-Employment Benefits

Plan Description: The North of River Sanitary District No. 1 Post Employment Benefits Plan (the Plan) is a single-employer, defined benefit healthcare plan administered by North of River Sanitary District No. 1. The Plan provides medical insurance benefits to eligible employees and their spouses. The District's Board of Directors has the authority to establish and amend benefit provisions.

Funding Policy: The contribution requirements of plan members and the District are established by the District's Board of Directors. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to pre-fund benefits as determined annually by the District's Board of Directors. For the years ended June 30, 2012 and 2011, the District contributed \$17,451 and \$14,002, respectively, for current premiums.

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

NORTH OF RIVER SANITARY DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS

The following table shows the components of the District's annual OPEB cost for the years ended June 30, 2012 and 2011, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the Plan:

	2012	2011
Annual required contribution	\$ 11,211	\$ 51,090
Interest on net OPEB obligation	2,645	1,854
Adjustment to annual required contribution	3,441	2,413
Annual OPEB cost (expense)	<u>17,297</u>	<u>55,357</u>
Contributions made	<u>(68,541)</u>	<u>(39,547)</u>
Increase (decrease) in net OPEB obligation	(51,244)	15,810
Net OPEB obligation, beginning of year	52,898	37,088
Net OPEB obligation, end of year	<u>\$ 1,654</u>	<u>\$ 52,898</u>

Included in contributions at June 30, 2012 and 2011 are \$51,090 and \$25,545 respectively, of transfers to an irrevocable trust to fund benefits.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012 were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2012	\$ 17,297	396.3%	\$ 1,654
6/30/2011	55,357	71.4%	52,898

Funded Status and Funding Progress. As of July 1, 2011, the most recent actuarial valuation date, the plan was 20% percent funded. The actuarial accrued liability for benefits was \$128,142, and the actuarial value of assets was \$25,804, resulting in an unfunded actuarial accrued liability (UAAL) of \$102,338. The covered payroll (annual payroll of active employees covered by the plan) was \$337,946, and the ratio of the UAAL to the covered payroll was 30.3%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

NORTH OF RIVER SANITARY DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS

In the July 1, 2011 actuarial valuation, the alternative measurement method was used. The actuarial assumptions included a 6.5 percent investment rate of return (net of administrative expenses), and an annual healthcare cost trend rate of 7 percent initially, reduced by decrements to an ultimate rate of 5 percent. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2012, was 28 years.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
7/1/2011	\$ 25,804	\$ 128,142	\$ 102,338	20%	\$ 337,946	30.30%
7/1/2009	\$ -	\$ 544,342	\$ 544,342	0.0%	\$ 728,840	74.7%

Note 10. Assessment District No. 12 Bonds

In July 1998, the District issued \$3,205,000 aggregate principal amount of special assessment bonds designated "Limited Obligation Refunding Improvement Bonds, North of River Sanitary Assessment District No. 12" pursuant to provisions of the Refunding Act of 1984 for 1915 Improvement Act Bonds. The Bonds were issued for the purpose of refunding certain previously issued bonds dated December 30, 1991 in the original principal amount of \$4,652,150 to fund a Reserve Fund and to pay certain costs of issuance of the Bonds.

The Bonds were paid in full in August 2008.

The bonds were issued under the provisions of the Bond Act and were limited obligation bonds. These bonds were NOT a general obligation of the District and the full faith and credit of the District was NOT pledged to the payment of either principal or interest on the bonds. The District's legal responsibilities with respect to such delinquent installments were limited to advancing the amount thereof solely from any available monies in the reserve fund and to undertaking judicial foreclosure proceedings to recover such delinquencies as covenanted by the District.

Funds for the payment of principal and interest on the Bonds were derived from installment payments of Reassessments in a fixed amount on properties within the Assessment District.

The Reassessments are placed upon the tax roll of the County for collection and the annual aggregate of such Reassessments equals the annually maturing principal of and interest on the Bonds. The Reassessments placed on the County tax roll for collection from each property each year is a pro rata share of the total principal and interest coming due for that year on the Bonds based on the ratio of each Reassessment to the total Reassessments.

The following cash funds are maintained in the Kern County Treasurer's Office as of June 30, 2012:

Fund Reserve Fund	\$ 230,234
Fund Redemption Fund	33,629
Total	<u>\$ 263,863</u>

NORTH OF RIVER SANITARY DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS

Note 11. Proposition 1A Borrowing by the State of California

Under the provisions of Proposition 1A and as part of the 2009-10 budget package passed by the California state legislature on July 28, 2009, the State of California borrowed 8% of the amount of property tax revenue, including those property taxes associated with the in-lieu motor vehicle license fee, the triple flip in lieu sales tax, and supplemental property tax, apportioned to cities, counties and special districts (excluding redevelopment agencies). The state is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California legislature may consider only one additional borrowing within a ten-year period. The amount of this borrowing pertaining to North of River Sanitary District No. 1 was \$17,181 as of June 30, 2010. There was no borrowing for June 30, 2012 or 2011.

Authorized with the 2009-10 State budget package, the Proposition 1A Securitization Program was instituted by the California Statewide Communities Development Authority ("California Communities"), a joint powers authority sponsored by the California State Association of Counties and the League of California Cities, to enable local governments to sell their Proposition 1A receivables to California Communities. Under the Securitization Program, California Communities simultaneously purchased the Proposition 1A receivables and issued bonds ("Prop 1A Bonds") to provide local agencies with cash proceeds in two equal installments, on January 15, 2010 and May 3, 2010. The purchase price paid to the local agencies equaled 100% of the amount of the property tax reduction. All transaction costs of issuance and interest were paid by the State of California. Participating local agencies have no obligation on the bonds and no credit exposure to the State. The District participated in the securitization program and accordingly property taxes have been recorded in the same manner as if the State had not exercised its rights under Proposition 1A. The receivable sale proceeds were equal to the book value and, as a result, no gain or loss was recorded.

SUPPLEMENTARY INFORMATION

NORTH OF RIVER SANITARY DISTRICT NO. 1

SCHEDULES OF FUNCTIONAL EXPENSES
Years Ended June 30, 2012 and 2011

	2012	2011
Sewage treatment and disposal:		
Salaries	\$ 272,397	\$ 321,877
Repairs and maintenance	248,709	307,959
Employee benefits	239,769	249,389
Utilities	216,861	199,465
Other	66,010	24,275
Engineering	57,009	53,527
Laboratory treatment	43,623	19,540
Insurance	19,775	8,810
Professional services	3,280	16,426
Fuel	1,966	1,951
	<u>\$ 1,169,399</u>	<u>\$ 1,203,219</u>
Sewage collection:		
Salaries	\$ 192,839	\$ 166,190
Insurance	123,880	85,962
Repairs and maintenance	75,239	87,644
Employee benefits	47,765	57,437
Refunds	46,714	80,864
Utilities	28,867	48,951
Engineering	25,199	11,622
Other	23,991	5,883
Fuel	19,015	18,068
Professional services	5,573	7,722
Road repairs	-	302,782
	<u>\$ 589,082</u>	<u>\$ 873,125</u>
General and administrative:		
Salaries	\$ 351,499	\$ 349,461
Professional services	56,083	74,057
Employee benefits	55,215	110,651
Repair and maintenance	15,302	8,433
Utilities	14,788	13,678
Insurance	9,722	21,645
Subscriptions and memberships	9,413	8,808
Fuel	5,800	3,341
Other	4,772	6,124
Office	3,453	4,084
Travel	1,325	1,076
Postage	674	956
Engineering	591	4,106
Legal	89	282
	<u>\$ 528,726</u>	<u>\$ 606,702</u>



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PATRICK PAGGI

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

Board of Directors
North of River Sanitary District No. 1
Bakersfield, California

We have audited the financial statements of **North of River Sanitary District No. 1** as of and for the year ended June 30, 2012, and have issued our report thereon dated November 13, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of **North of River Sanitary District No. 1** is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered **North of River Sanitary District No. 1**'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of **North of River Sanitary District No. 1**'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of **North of River Sanitary District No. 1**'s internal control over financial reporting.

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

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

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described below as finding 2012-1 to be a significant deficiency in internal control over financial reporting.

Finding 2012-1:

Condition: Several areas of internal control are addressed in SAS 115, *Communicating Internal Control Related Matters Identified in an Audit*, including internal control surrounding financial reporting and the need for the management of an entity to have adequate knowledge and understanding of financial reporting that it would be able to prepare its financial statements, including the footnotes, in accordance with generally accepted accounting principles. Based on the number of audit adjustments required to provide financial statements in accordance with generally accepted accounting principles it appears the District has a need to rely heavily on the auditor to prepare financial statements in accordance with generally accepted accounting principles.

Management Response: Management agrees; however, current staffing needs does not provide for staff with this expertise.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **North of River Sanitary District No. 1's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The District's responses to the findings identified in our audit are described above. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors and management, and is not intended to be and should not be used by anyone other than these specified parties.

Danielle Phillips Vaughan & Bock

Bakersfield, California
November 13, 2012

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APPENDIX D

FORM OF FINAL OPINION OF BOND COUNSEL

[Closing Date]

[Addresses]

**Re: \$_____ North of River Sanitary District No. 1 Wastewater Revenue
Refunding Bonds, Series 2013A**

Ladies and Gentlemen:

We have acted as Bond Counsel to the North of River Sanitary District No. 1 (the "District") in connection with the sale and issuance of \$_____ aggregate principal amount of the District's Wastewater Revenue Refunding Bonds, Series 2013A (the "Bonds"). The Bonds are being issued pursuant to the Constitution and laws of the State of California, including the provisions of Articles 10 and 11, Chapter 3, Part 1, Division 2, Title 5 (commencing with Section 53570) of the California Government Code, as amended, an Indenture of Trust, dated as of February 1, 2013 (the "Indenture"), between the District and U.S. Bank National Association, as trustee. The proceeds of the Bonds are being used to refinance certain outstanding obligations of the District. The District is obligated under the Indenture to pay principal of and interest on the Bonds solely from Net Revenues (as defined in the Indenture).

As Bond Counsel we have examined copies certified to us as being true and complete copies of the proceedings of the District and in connection with the authorization and sale of the Bonds. In this connection, we have also examined such other documents, opinions and instruments as we have deemed necessary in order to render the opinions expressed herein. In such examination, we have assumed the genuineness of all signatures on original documents (other than signatures of the District) and the conformity to the original documents of all copies submitted to us. We have also assumed the due execution and delivery of all documents (other than with respect to the District) which we have examined where due execution and delivery are a prerequisite to the effectiveness thereof. As to the various questions of fact material to our opinion, we have relied upon statements or certificates of officers and representatives of the District, public officials and others.

On the basis of the foregoing examination and assumptions and in reliance thereon and on all such other matters of fact as we deemed relevant under the circumstances, and upon consideration of the applicable law, we are of the opinion that:

1. The Indenture has been duly adopted by the District and constitutes the valid and binding obligation of the District enforceable against the District in accordance with its terms. The Indenture creates a valid lien on and pledge of the Net Revenues and other funds pledged thereby for the security of the Bonds, in accordance with the terms of the Indenture, on a parity with all additional parity obligations issued pursuant to the Indenture.

2. The Bonds have been duly authorized, executed and delivered by the District and are valid and binding special obligations of the District, payable solely from the sources provided therefor in the Indenture.

3. The obligation of the District to make payments on the Bonds does not constitute a debt of the District, or of the State of California or of any political subdivision thereof, within the meaning of any constitutional or statutory debt limit or restriction, and does not constitute an obligation for which the District is obligated to levy or pledge any form of taxation or for which the District has levied or pledged any form of taxation.

4. Interest received by the owners of the Bonds is excludable under existing statutes, regulations, rulings and court decisions, from gross income for Federal income tax purposes pursuant to Section 103(a) of the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that the interest is included in adjusted current earnings in calculating corporate alternative minimum taxable income. Interest received by the owners of the Bonds is exempt from personal income taxes of the State of California under present law.

In rendering the opinions expressed in paragraph 4 above, we are relying upon representations and covenants of the District in the Indenture and in the Tax Certificate of the District, dated as of the date hereof, concerning the use of the facilities refinanced with Bond proceeds, the investment and use of Bond proceeds and the rebate, if any, to the federal government of certain earnings thereon. In addition, we have assumed that all such representations are true and correct and that the District will comply with such covenants. We express no opinion with respect to the exclusion of the interest from gross income under Section 103(a) of the Code in the event that any such representations are untrue or the District fails to comply with such covenants. Except as stated above, we express no opinion as to any federal tax consequences of the receipt of interest on, or the ownership or disposition of, the Bonds.

Certain agreements, requirements and procedures contained or referred to in the Indenture, the Tax Certificate and other relevant documents may be changed, and certain actions (including, without limitation, defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any payment of interest on the Bonds if any such change occurs or action is taken or omitted to be taken upon the advice or approval of counsel other than ourselves.

Further, we note that the rights of the owners of the Bonds and the enforceability of the Bonds or the Indenture may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other similar laws affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against governmental entities in the State of California. We express no opinion with respect to any indemnification, contribution, choice of law, choice of forum or waiver provisions contained in the foregoing documents. Finally, we undertake no responsibility herein for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Respectfully submitted,

NOSSAMAN LLP

APPENDIX E

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the “Disclosure Agreement”), dated as of February 1, 2013, is executed by the North of River Sanitary District No. 1 (the “District”) and U.S. Bank National Association (the “Trustee”), as Trustee and Dissemination Agent in connection with the issuance of the \$_____ aggregate principal amount of the District’s Wastewater Revenue Refunding Bonds, Series 2013A (the “Bonds”). The Bonds are being issued pursuant to an Indenture of Trust, dated as of February 1, 2013 (the “Indenture”), between the District and the Trustee. The District covenants and agrees as follows:

Section 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the District for the benefit of the Owners of the Bonds and in order to assist the Participating Underwriters (as defined herein) in complying with S.E.C. Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Reports provided by the District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“Disclosure Representative” shall mean the President or General Manager of the District, or his or her designee, or such other officer or employee as the District shall designate in writing to the Dissemination Agent from time to time.

“Dissemination Agent” shall mean the Trustee, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the District and which has filed with the District a written acceptance of such designation.

“Fiscal Year” shall mean the twelve month period beginning on July 1 of each year and ending on June 30 of the following year.

“Listed Events” shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

“MSRB” shall mean the Municipal Securities Rulemaking Board and any successor entity designated under the Rule as the repository for filings made pursuant to the Rule.

“Participating Underwriters” shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

“Repository” shall mean the MSRB.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Section 3. Provision of Annual Reports.

(a) The District shall, or shall cause the Dissemination Agent to, annually not later than March 1 in each year following the end of the District's Fiscal Year, commencing with the report for Fiscal Year ending June 30, 2013, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. Not later than fifteen (15) Business Days prior to said date, the District shall provide the Annual Report to the Dissemination Agent. In each case, the Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement. The information contained or incorporated in each Annual Report shall be for the Fiscal Year which ended on the preceding June 30. The District shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certifications of the District and shall have no liability, duty or obligation whatsoever to review any such Annual Report. Further, the Dissemination Agent shall have no liability for the contents of any such annual report.

(b) If the Dissemination Agent is unable to verify that an Annual Report has been provided to the Repository by the date specified in subsection (a), the Dissemination Agent shall send a notice to the MSRB, in substantially the form attached as Attachment A.

(c) The Dissemination Agent shall:

(i) determine each year prior to the Annual Report date the then-applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports; and

(ii) provide notice to the District that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided to the MSRB.

Section 4. Content of Annual Reports. The District's Annual Report shall contain or incorporate by reference the most recent audited financial statements of the District prepared in accordance with generally accepted accounting principles promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. In addition, for years following the Fiscal Year ending June 30, 2013, the Annual Report shall contain an annual updating of the following tables and information contained in the Official Statement:

- (i) Historical Wastewater Flow (Table 1);
- (ii) New Connections and Development Impact Fees (Table 7); and
- (iii) Operating Results and Debt Service Coverage for the current Fiscal Year only (Table 12).

In addition to any of the information expressly required to be provided under this Section, the District shall provide such further information, if any, as may be necessary to make

the specifically required statements, in the light of the circumstances under which they are made, not misleading.

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues of the District or related public entities, which have been submitted to the MSRB or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The District shall clearly identify each such other document so incorporated by reference.

Section 5. Reporting of Significant Events.

(a) The District shall give or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds not later than 10 business days after the occurrence of the event:

1. Principal and interest payment delinquencies;
2. Unscheduled draws on debt service reserves reflecting financial difficulties;
3. Unscheduled draws on credit enhancements reflecting financial difficulties;
4. Substitution of credit or liquidity providers, or their failure to perform;
5. Issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);
6. Tender offers;
7. Defeasances;
8. Rating changes; or
9. Bankruptcy, insolvency, receivership or similar event of the obligated person.

For the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) The District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material, not later than ten business days after the occurrence of the event:

1. Unless described in paragraph 5(a)(5), adverse tax opinions or other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;

2. Modifications to rights of Bond holders;

3. Optional, unscheduled or contingent Bond calls;

4. Release, substitution, or sale of property securing repayment of the Bonds;

5. Non-payment related defaults;

6. The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; or

7. Appointment of a successor or additional trustee or the change of name of a trustee.

(c) The District shall give, or cause to be given, in a timely manner, notice of a failure to provide the annual financial information on or before the date specified in Section 4, as provided in Section 4(b).

(d) Whenever the District obtains knowledge of the occurrence of a Listed Event described in Section 5(b), the District shall determine if such event would be material under applicable federal securities laws.

(e) If the District learns of the occurrence of a Listed Event described in Section 5(a), or determines that knowledge of a Listed Event described in Section 5(b) would be material under applicable federal securities laws, the District shall within ten business days of occurrence file a notice of such occurrence with the MSRB in electronic format, accompanied by such identifying information as is prescribed by the MSRB. Notwithstanding the foregoing, notice of the Listed Event described in subsections (a)(7) or (b)(3) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Indenture.

(f) If the Dissemination Agent has been instructed by the District to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the MSRB. Notwithstanding the foregoing:

(i) Notice of the occurrence of a Listed Event described in subsections (a)(1), (4) or (5) shall be given by the Dissemination Agent to the extent it has knowledge thereof, unless the District gives the Dissemination Agent affirmative instructions not to disclose such occurrence; and

(ii) Notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Owners of the affected Bonds pursuant to the Indenture.

Section 6. Termination of Reporting Obligation. The District's obligations under this Disclosure Agreement shall terminate upon the defeasance, prior redemption or payment in full of all of the Bonds.

Section 7. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign by providing thirty (30) days written notice to the District. If at any time there is no designated Dissemination Agent appointed by the District, or if the Dissemination Agent so appointed is unwilling or unable to perform the duties of the Dissemination Agent hereunder, the District shall be the Dissemination Agent and undertake or assume its obligations hereunder.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the District may amend this Disclosure Agreement (and the Dissemination Agent shall agree to any amendment requested by the District, provided the Dissemination Agent shall not be obligated to enter into any amendment increasing or affecting its duties or obligations), and any provision of this Disclosure Agreement may be waived, if such amendment or waiver is supported by an opinion of counsel expert in federal securities law, acceptable to the District and the Dissemination Agent, to the effect that such amendment or waiver would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule.

Section 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the District shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the District or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Dissemination Agent may, and, at the request of any Participating Underwriter or the Owners of at least 25% of the aggregate principal amount of the outstanding Bonds, shall (but only to the extent funds in any amount satisfactory to the Dissemination Agent have been provided to it or it has been otherwise indemnified to its satisfaction from any cost, liability, expense or additional charges whatsoever related thereto, including without limitation, fees and expenses of its attorneys), or any Bond owner may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an event of default under the Indenture and the sole remedy under this Disclosure Agreement in the event of any failure of the 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 the Dissemination Agent. The Indenture is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Indenture. The Dissemination Agent shall be entitled to the protections and limitations afforded to the Trustee under said Indenture. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the District agree to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the District for its services provided hereunder in accordance with its schedule of fees as amended from time to time and shall be reimbursed by the District all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall not have any duty or obligation to review any information provided to it hereunder or shall be deemed to be acting in any fiduciary capacity for the District, the owners of the Bonds or any other party. The obligations of the District under this section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds. Any company succeeding to all or substantially all of the Dissemination Agent's corporate trust business shall be the successor to the Dissemination Agent hereunder without the execution or filing of any document or any further act.

Section 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriter and the Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 13. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

NORTH OF RIVER SANITARY DISTRICT NO. 1

By: _____
General Manager

**U.S. BANK NATIONAL ASSOCIATION, as Trustee
and Dissemination Agent**

By: _____
Authorized Officer

EXHIBIT A

**NOTICE OF MUNICIPAL SECURITIES RULEMAKING BOARD
OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: North of River Sanitary District
Name of Issue: North of River Sanitary District No. 1 Wastewater Revenue Refunding Bonds, Series 2013A
Date of Issuance: _____, 2013

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Agreement. The District anticipates that the Annual Report will be filed by _____.

Dated: _____

U.S. BANK NATIONAL ASSOCIATION, as
Dissemination Agent

By: _____
Authorized Officer

cc: District

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APPENDIX F

BOOK ENTRY PROVISIONS

The information concerning DTC set forth herein has been supplied by DTC, and the District assumes no responsibility for the accuracy thereof.

Unless a successor securities depository is designated pursuant to the Indenture, DTC will act as Securities Depository for the Bonds. The Bonds will be issued as fully-registered securities, registered in the name of Cede & Co., DTC's partnership nominee, or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC and Its Participants. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchase of Ownership Interests. Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 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 securities 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.

Notices and Other Communications. 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. THE DISTRICT AND THE TRUSTEE WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO SUCH DTC PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE BONDS.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being prepaid, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be prepaid.

Voting Rights. Neither DTC nor Cede & Co. will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to an issuer 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 the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption Proceeds. Payments of principal and interest with respect to the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts on interest payment dates in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the interest payment date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Trustee, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal and interest to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC is the responsibility of the 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.

THE TRUSTEE AND THE DISTRICT SHALL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DTC PARTICIPANT, ANY BENEFICIAL OWNER OR ANY OTHER PERSON CLAIMING A BENEFICIAL OWNERSHIP INTEREST IN THE BONDS UNDER OR THROUGH DTC OR ANY DTC PARTICIPANT, OR ANY OTHER PERSON WHICH IS NOT SHOWN ON THE REGISTRATION BOOKS OF THE TRUSTEE AS BEING AN OWNER OF BONDS, WITH RESPECT TO THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC

OR ANY DTC PARTICIPANT; THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OF ANY AMOUNT IN RESPECT OF THE PRINCIPAL OF, AND PREMIUM, IF ANY, OR INTEREST WITH RESPECT TO THE BONDS; ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO OWNER OF THE BONDS UNDER THE INDENTURE; THE SELECTION BY DTC OR ANY DIRECT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE BONDS; ANY CONSENT OR OTHER ACTION TAKEN BY DTC AS OWNER OF THE BONDS; OR ANY OTHER PROCEDURES OR OBLIGATIONS OF DTC UNDER THE BOOK-ENTRY SYSTEM.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE REGISTERED OWNERS OF THE BONDS SHALL MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE BONDS (EXCEPT FOR THE MATTERS UNDER THE CAPTION "TAX MATTERS" HEREIN)

The foregoing description of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal and interest with respect to the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial owner interest in such Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owner is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters, and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

Discontinuance of Book-Entry System. DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the District or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Bonds are required to be printed and delivered as described in the Indenture.

The District may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, Bonds will be printed and delivered as described in the Indenture.

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APPENDIX G
SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

ASSURED GUARANTY MUNICIPAL CORP. ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By _____
Authorized Officer