

PRELIMINARY OFFICIAL STATEMENT DATED NOVEMBER 22, 2016

NEW ISSUE—FULL BOOK ENTRY

RATING: S&P: "AA" See "RATING" herein

In the opinion of Quint & Thimmig LLP, Larkspur, California, Special Counsel, subject to compliance by the District with certain covenants, interest with respect to the Certificates is excludable from gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations, but such interest is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. In addition, in the opinion of Special Counsel, interest with respect to the Certificates is exempt from personal income taxation imposed by the State of California. See "TAX MATTERS" herein.

\$20,000,000*

CERTIFICATES OF PARTICIPATION (2016 Financing Project)

Evidencing the Direct, Undivided Fractional Interests of the Owners Thereof in Installment Payments to be Made by the MID-PENINSULA WATER DISTRICT (San Mateo County, California) As the Purchase Price for Certain Property Pursuant to an Installment Sale Agreement with the Public Property Financing Corporation of California



Dated: Date of Delivery

Due: December 1, as shown on the Inside Cover

The captioned certificates of participation (the "Certificates") are being executed and delivered to provide funds to (a) finance the acquisition and construction of certain improvements and facilities which constitute part of the municipal water system (the "Water System") of the Mid-Peninsula Water District (the "District"), and (b) pay costs of the financing, all as more fully described herein. See "THE PLAN OF FINANCING" herein. The Certificates will evidence the direct, undivided fractional interests of the registered owners thereof (the "Owners") in installment payments (the "Installment Payments") to be made by the District as the purchase price for certain property pursuant to an installment sale agreement, dated as of December 1, 2016 (the "Installment Sale Agreement"), with the Public Property Financing Corporation of California (the "Corporation"). The Corporation will assign its right to receive Installment Payments from the District under the Installment Sale Agreement and its right to enforce payment of the Installment Payments when due or otherwise protect its interest in the event of a default by the District thereunder to The Bank of New York Mellon Trust Company, N.A., San Francisco, California, as trustee (the "Trustee"), for the benefit of the registered owners of the Certificates.

The Certificates will be executed and delivered pursuant to a trust agreement, by and among the Corporation, the District and the Trustee, dated as of December 1, 2016 (the "Trust Agreement"). The Certificates will be executed and delivered in book-entry form only, and will be initially registered in the name of Cede & Co., as nominee of The Depository Trust Company (referred to herein as "DTC"). Purchasers of the Certificates (the "Beneficial Owners") will not receive physical certificates representing their interest in the Certificates. Interest with respect to the Certificates accrues from their date of delivery, and is payable semiannually by check mailed on each June 1 and December 1, commencing June 1, 2017. The Certificates may be executed and delivered in denominations of \$5,000 or any integral multiple thereof. Payments of principal and interest with respect to the Certificates 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 Certificates. (See "THE CERTIFICATES—Book-Entry-Only System" herein).

The Certificates are subject to redemption. See "THE CERTIFICATES—Redemption" herein.

The District is legally required under the Installment Sale Agreement to make Installment Payments from a first and prior lien on the Net Revenues of the Water System. "Net Revenues" are the gross revenues of the Water System less operating and maintenance expenses of the Water System. Installment Payments are scheduled in an amount sufficient to pay, when due, the annual principal and interest with respect to the Certificates. The District has covenanted under the Installment Sale Agreement to prescribe, revise and collect such charges from the services and facilities of the Water System which will produce gross revenues sufficient in each Fiscal Year to provide Net Revenues equal to at least 1.30 times the aggregate annual payment requirements with respect to the Installment Sale Agreement and any parity obligations in such Fiscal Year, as required by the Installment Sale Agreement. The District's obligation to pay the Installment Payments is on a parity with any additional parity obligations incurred by the District in the future. A reserve fund will not be funded for the Certificates.

THE OBLIGATION OF THE DISTRICT TO MAKE THE INSTALLMENT PAYMENTS DESCRIBED HEREIN IS A LIMITED OBLIGATION OF THE DISTRICT PAYABLE SOLELY FROM NET REVENUES OF THE WATER SYSTEM AND DOES NOT CONSTITUTE A DEBT OF THE DISTRICT, SAN MATEO COUNTY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND PRICES OR YIELDS

SEE THE INSIDE COVER

Bids for the purchase of the Certificates will be received by the District on December 7, 2016, electronically only, through the I-Deal LLC BiDCOMP/PARITY® system, until 10:00 A.M., Pacific Daylight time. The Certificates will be sold pursuant to the terms of sale set forth in the Official Notice of Sale, dated November 22, 2016.

The following firm, serving as financial advisor to the District, has structured this issue:

Wulff, Hansen & Co.

Established 1931 Investment Bankers

The cover page contains certain information for general reference only. It is not a summary of all the provisions of the Certificates. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision. See "RISK FACTORS" herein for a discussion of special risk factors that should be considered, in addition to the other matters set forth herein, in evaluating the investment quality of the Certificates.

The Certificates will be offered when, as and if delivered and received by the Underwriter subject to approval by Quint & Thimmig LLP, Larkspur, California, as Special Counsel. Certain matters will be passed upon for the District by Hanson Bridgett LLP, San Francisco, California, District Counsel, and by Quint & Thimmig LLP, San Francisco, California, as Disclosure Counsel. It is anticipated that the Certificates will be available for delivery through the facilities of DTC on or about December 21, 2016.

Dated: December __, 2016

*Preliminary, subject to change.

ered in final e would be er securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is issued. No circumstances shall this Preliminary Official Statement constitute an offer to sell or a solicitation to buy or registration or qualification under the securities laws of such jurisdiction. This Preliminary Official Statement and the information contained herein are subject to completion or amendment. No circumstances shall this Preliminary Official Statement constitute an offer to sell or a solicitation to buy or registration or qualification under the securities laws of such jurisdiction.

\$20,000,000*
CERTIFICATES OF PARTICIPATION
(2016 Financing Project)
Evidencing the Direct, Undivided Fractional Interests of the
Owners Thereof in Installment Payments to be Made by the
MID-PENINSULA WATER DISTRICT
(San Mateo County, California)
As the Purchase Price for Certain Property
Pursuant to an Installment Sale Agreement with the
Public Property Financing Corporation of California

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND PRICES OR YIELDS*

CUSIP† Prefix: _____

<u>Maturity</u> <u>December 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIP†</u> <u>Suffix</u>
2017	\$ 370,000			
2018	385,000			
2019	400,000			
2020	415,000			
2021	430,000			
2022	445,000			
2023	465,000			
2024	480,000			
2025	500,000			
2026	515,000			
2027	535,000			
2028	555,000			
2029	580,000			
2030	600,000			
2031	620,000			
2032	645,000			
2033	670,000			
2034	695,000			
2035	720,000			
2036	750,000			
2037	775,000			
2038	805,000			
2039	835,000			
2040	870,000			
2041	900,000			
2042	935,000			
2043	970,000			
2044	1,005,000			
2045	1,045,000			
2046	1,085,000			

*Preliminary, subject to change.

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For purposes of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission, as amended (“Rule 15c2-12”), this Preliminary Official Statement constitutes an “official statement” of the District with respect to the Certificates that has been deemed “final” by the District as of its date except for the omission of no more than the information permitted by Rule 15c2-12.

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

This Official Statement is not to be construed as a contract with the purchasers of the Certificates. 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 facts.

The information set forth herein has been obtained from the District and from other sources and is believed to be reliable but is not guaranteed as to accuracy or completeness. The information and expressions of opinions herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District since the date hereof. This Official Statement is submitted in connection with the sale of the Certificates referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the District. All summaries of the Certificates, the Acquisition Agreement, the Installment Sale Agreement, the Trust Agreement, the Assignment Agreement, or other documents, are made subject to the provisions of such documents and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the General Manager for further information. See “INTRODUCTION—Other Information.”

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE CERTIFICATES 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 CERTIFICATES TO CERTAIN DEALERS, INSTITUTIONAL INVESTORS AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE INSIDE COVER PAGE HEREOF AND SUCH PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements.” Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “budget” or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. No assurance is given that actual results will meet the District’s forecasts in any way. Neither the District nor the Corporation is obligated to issue any updates or revisions to the forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based occur or do not occur.

The execution, sale and delivery of the Certificates has not been registered under the Securities Act of 1933 or the Securities Exchange Act of 1934, both as amended, in reliance upon exemptions provided thereunder by Sections 3(a)(2) and 3(a)(12), respectively, for the issuance and sale of municipal securities.

Website. The District maintains a website. Unless specifically indicated otherwise, the information presented on such website is not incorporated by reference as part of this Official Statement and should not be relied upon in making investment decisions with respect to the Certificates.

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MID-PENINSULA WATER DISTRICT

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DISTRICT AND CORPORATION BOARD OF DIRECTORS

Matthew P. Zucca, *President*
Dave Warden, *Vice President*
Al Stuebing, *Director*
Louis Vella, *Director*
Betty L. Linvill, *Director*

DISTRICT STAFF

Tammy Rudock, *General Manager*
Candy Piña, *Administrative Services Manager/Board Secretary*
Rene A. Ramirez, *Operations Manager*

PROFESSIONAL SERVICES

Quint & Thimmig LLP
Larkspur, California
Special Counsel and Disclosure Counsel

The Bank of New York Mellon Trust Company, N.A.
San Francisco, California
Trustee

Wulff, Hansen & Co.
San Francisco, California
Municipal Advisor

OFFICIAL STATEMENT

\$20,000,000*

CERTIFICATES OF PARTICIPATION

(2016 Financing Project)

**Evidencing the Direct, Undivided Fractional Interests of the
Owners Thereof in Installment Payments to be Made by the
MID-PENINSULA WATER DISTRICT
(San Mateo County, California)**

**As the Purchase Price For Certain Property Pursuant to an
Installment Sale Agreement with the
Public Property Financing Corporation of California**

INTRODUCTION

General

The purpose of this Official Statement, which includes the cover page, inside cover page, Table of Contents and Appendices (the "Official Statement"), is to provide certain information concerning the sale and delivery of Certificates of Participation (2016 Financing Project) (the "Certificates"), in aggregate principal amount of \$20,000,000.* representing the direct, undivided fractional interests of the registered owners thereof (the "Owners") in installment payments (the "Installment Payments") to be made by the Mid-Peninsula Water District, California (the "District"), as the purchase price for certain portions (the "Project") of the District's water system (the "Water System"), pursuant to an Installment Sale Agreement, dated as of December 1, 2016 (the "Installment Sale Agreement"), by and between the Public Property Financing Corporation of California (the "Corporation") and the District. The Certificates are being executed and delivered to (a) finance the acquisition and construction of certain improvements and facilities which constitute part of the Water System (the "Project"), and (b) pay costs of the financing, all as more fully described herein. See "THE PROJECT."

The Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of December 1, 2016 (the "Trust Agreement"), by and among the District, the Corporation and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). Pursuant to an Assignment Agreement, dated as of December 1, 2016 between the Corporation and the Trustee (the "Assignment Agreement"), the Corporation will assign to the Trustee, for the benefit of the Owners, its rights under the Installment Sale Agreement, including (i) its right to receive Installment Payments, and (ii) its right to enforce amounts payable upon default.

Capitalized terms appearing herein and not otherwise defined have the respective meanings assigned to those terms in APPENDIX A—"SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—DEFINED TERMS."

In general, the District is required to pay to the Trustee, from a first and prior lien on Net Revenues, Installment Payments which are designed to be sufficient in both time and amount to pay, when due, the principal and interest with respect to the Certificates. "Net Revenues" are the Gross Water

* Preliminary, subject to change.

System Revenues less Maintenance and Operation Expenses. The District has covenanted in the Installment Sale Agreement to prescribe, revise and collect such charges from the services and facilities of the Water System which will produce Gross Water System Revenues sufficient in each Fiscal Year to provide Net Revenues equal to at least 1.30 times the aggregate annual payment requirements with respect to the Installment Sale Agreement and any parity obligations in such Fiscal Year.

A Reserve Fund will not be established for the Certificates.

THE OBLIGATION OF THE DISTRICT TO MAKE INSTALLMENT PAYMENTS CONSTITUTES A SPECIAL OBLIGATION OF THE DISTRICT PAYABLE SOLELY FROM NET REVENUES AND 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 MAKE INSTALLMENT PAYMENTS DOES NOT CONSTITUTE AN INDEBTEDNESS OF THE DISTRICT, THE STATE OF CALIFORNIA, OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

The District

The Mid-Peninsula Water District is a special district formed in 1929 under the County Water District Act of California. The District is located in east central San Mateo County on the San Francisco Peninsula, about 30 miles south of San Francisco, in California.

The District supplies water to consumers in an area slightly larger than the city limits of the City of Belmont. Small portions of the service area are within the city limits of the City of San Carlos, and parts of the unincorporated County of San Mateo. The District's service territory covers approximately five (5) square miles and currently serves approximately 27,000 people.

For further information concerning the District, see "THE MID-PENINSULA WATER DISTRICT" "WATER SYSTEM," and "DISTRICT FINANCIAL MATTERS" below.

District Finances

The District's fiscal year 2015-16 revenues totaled approximately \$10,130,083. Water sales are the primary source of revenue for the District and, in general, account for approximately 99% of District revenues.

The District has the power and authority to establish charges for service without the review or approval of any other governmental body. The District's rates and charges are established by ordinance of the District's Board of Directors. The District can refuse or terminate service to delinquent customers and can require full payment of delinquent amounts and reconnection charges to resume service. Unpaid charges may become a lien on real property by recordation of a notice thereof.

For further information concerning District finances, see "DISTRICT FINANCIAL MATTERS."

Continuing Disclosure

The District has covenanted, for the benefit of the owners and beneficial owners of the Certificates, to provide certain financial information and operating data relating to the Water System by not later than nine months following the end of each Fiscal Year (currently June 30), and to provide notices of the occurrence of certain enumerated events. See "CONTINUING DISCLOSURE" and APPENDIX C—PROPOSED FORM OF CONTINUING DISCLOSURE CERTIFICATE.

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds to be received from the sale of Certificates are anticipated to be applied as follows:

SOURCES:

Par Amount of Certificates
Plus: Net Original Issue Premium
Total Sources of Funds

USES:

Deposit to Project Fund
Deposit to Delivery Costs Fund (3)
Total Uses of Funds

(1) Amounts deposited in the Delivery Costs Fund will be applied to the payment of all items of expense directly or indirectly payable by or reimbursable to the District or the Corporation relating to the financing, including but not limited to the Underwriter's discount, initial fees and charges and first year's administration fee of the Trustee, Trustee's counsel fees and expenses, legal fees and charges, financial and other professional consultant fees.

THE PROJECT

The Certificates are being executed and delivered to (a) finance the Project, and (b) pay the costs of the transaction.

The Project includes the following:

Project Component	Projected Cost
Mezes Avenue Improvements	\$ 175,000
El Camino Real Improvements	2,100,000
Folger Drive Improvements	420,000
Karen Road Improvements	425,000
Notre Dame Avenue Loop Closure	910,000
South Road Abandonment	415,000
Arthur Avenue Improvements	475,000
Williams Avenue, Ridge Road, Hillman Avenue Improvements	1,100,000
North Road Cross Country/Davey Glen Road Improvements	680,000
Zone 5 Fire Hydrant Upgrades	150,000
Civic Lane Improvements	800,000
Monte Cresta Drive/Alhambra Drive Improvements	1,075,000
Hillcrest Pressure Regulating Station	345,000
Dekoven Tank Utilization Project	1,035,000
Tahoe Drive Area Improvements	510,000
Belmont Canyon Road Improvements	420,000
Cliffside Court Improvements	220,000
North Road Improvements	220,000
Old County Road Improvements	3,400,000
SR 101 Crossing at PAMF Hospital	1,670,000
Dekoven Tanks Replacement	3,500,000
TOTAL	\$20,045,000

Source: Mid-Peninsula Water District

El Camino Real Water Main Replacement - \$2.1 million. El Camino Real is located in the western portion of Zone 1 and spans the entire length of the zone for approximately 8,400 LF (lineal feet). The existing water mains along the road consist of 100 LF of 8" asbestos cement (AC), 1,700 LF of 8" ductile iron pipe (DIP), 3,800 LF of cast iron pipe (CIP), and 1,300 LF of plynvinylchloride (PVC) for a total of 6,900 LF. Several leaks have occurred along the alignment primarily within the CIP section, which was installed in 1950. All other pipe was installed in the 1990s. This project replaces the 3,800 LF of CIP with 8" DIP and installation of 300 LF of new 8" DIP. Also included for replacement are 8 fire hydrants, 4 fire services, and 23 service connections.

Old County Road Water Main Replacement - \$3.4 million. Old County Road spans the entire length of Zone 1 and has approximately 5,000 LF of various 4", 6", and 8" CIP and AC water mains installed in the 1930s/1940s located on the east side of the road. In addition, approximately 3,100 LF of 10" and 12" PVC and polyethylene (PE) water mains in steel casings were installed in the late 1980s and parallel the CIP and AC on the left side of the road. Hydraulic analysis indicates the larger parallel water mains (10"-12") provide no significant fire flow benefit to the zone. This project abandons 6,475 LF of various sized parallel water main and replaces all of the 6"-8" CIP/AC with 8" PVC (3,700 LF) and 1,800 LF of 20"

CC with 20" PVC from Bragato Road to Marine View Avenue. Also included for replacement are 11 fire hydrant assemblies, 111 service connections, and 15 fire service connections.

State Route 101 Water Main Crossing at Palo Alto Medical Foundation Hospital - \$1.7 million. Two State Route 101 (SR 101) water main crossings exist in Zone 1, including a 500 LF 12" AC crossing between Karen Road and Sem Lane, and another 12" PVC crossing a half mile to the north. The 12" AC was installed in 1963 in a 36" steel casing. As part of the Palo Alto Medical Foundation (PAMF) Hospital development agreement with the District at the south end of Zone 1, the District obtained a 15' easement along the northeast side of the PAMF property and a 40' x 40' area in the northeast corner to serve as a staging area for an alternate SR 101 crossing. This project abandons the aging 12" AC crossing and relocates it to the PAMF easement with a new 1,100 LF 12" PVC water main. To loop the water main back to the existing water main on Shoreway Road requires the installation of an additional 1,200 LF 8" PVC. Two fire hydrant assemblies, a new intertie, and cathodic protection of all metallic fittings/materials will also be installed.

Dekoven Tanks Replacement - \$3.5 million. The Dekoven Tanks were constructed in 1952 and are a critical element of the Zone 3 water distribution system. The existing tanks are 52 and 60 feet in diameter, approximately 48 feet tall and have capacities of 720,000 gallons and 1 million gallons, respectively. A recent structural analysis determined the maximum capacity level in the tanks should be reduced to 22 feet (from the current 30 feet) to withstand seismic events. This is not operationally feasible during high summer demands. The coatings on each tank are also failing. The project will replace the existing 0.7 MG and 1.0 MG tanks with two 0.8 MG tanks.

THE CERTIFICATES

General Provisions

The Certificates will be dated as of their date of delivery, will be entitled to the interest portion of the Installment Payments at the rates per annum set forth on the inside cover page hereof, payable semiannually on each June 1 and December 1, commencing June 1, 2017 (each, an "Interest Payment Date"), and will be payable on December 1 in each year of the designated years set forth on the inside cover page hereof.

The Certificates will be executed and delivered in fully registered form without coupons, in the denomination of \$5,000 each or any integral multiple thereof. Principal of the Certificates will be payable upon surrender at the principal corporate trust office of the Trustee in San Francisco, California. Interest with respect to the Certificates will be payable by check or draft mailed by first class mail to the Owners at the addresses listed on the registration books maintained by the Trustee for such purpose or, upon written request of an owner of at least \$1,000,000 in aggregate principal amount of the Certificates, by wire transfer to an account in the continental United States of America at said Owner's sole cost and expense.

The Certificates, when delivered, will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company ("DTC," together with any successor securities depository, the "Securities Depository"). DTC will act as Securities Depository for the Certificates so purchased. Individual purchases will be made in book-entry-only form. Purchasers will not receive a certificate representing their beneficial ownership interest in Certificates. So long as Cede & Co., is the registered owner of the Certificates, as nominee of DTC, references herein to the Owners, holders or

registered owners shall mean Cede & Co. as aforesaid, and shall not mean the “Beneficial Owners” of the Certificates. In this Official Statement, the term “Beneficial Owner” shall mean the person for whom a Participant (as defined herein) acquires an interest in the Certificates. See APPENDIX E—BOOK-ENTRY ONLY SYSTEM.

So long as Cede & Co. is the registered owner of the Certificates, principal of, premium (if any) and interest on the Certificates are payable by wire transfer of same-day funds by the Trustee to Cede & Co., as nominee for DTC. DTC is obligated, in turn, to remit such amounts to the DTC Participants for subsequent disbursement to the Beneficial Owners. See APPENDIX E—BOOK-ENTRY ONLY SYSTEM.

In the event the use of the book-entry-only system is discontinued, principal of the Certificates will be payable upon surrender thereof at the principal corporate trust office of the Trustee in San Francisco, California. Interest payable on the Certificates will be paid by check mailed on the Interest Payment Date to the person in whose name each Certificate is registered in the registration books maintained by the Trustee as of the applicable Record Date for such Interest Payment Date; provided that registered owners of \$1,000,000 or more in aggregate principal amount of Certificates may request payment by wire transfer, such request to be submitted in writing to the Trustee on or before the applicable Record Date for such Interest Payment Date in accordance with the provisions set forth in the Trust Agreement.

Optional Redemption

The Certificates maturing on or before December 1, 2026, are not subject to optional redemption prior the respective stated maturities. The Certificates maturing on or after December 1, 2027, are subject to optional redemption in whole or in part on any date on or after December 1, 2026, from the proceeds of optional Prepayments made by the District pursuant to the Installment Sale Agreement, without premium.

Extraordinary Mandatory Redemption

The Certificates are subject to redemption in whole or in part on any date from the Net Proceeds of any insurance or condemnation award deposited in the Installment Payment Fund and credited towards the Prepayment made by the District pursuant to the Installment Sale Agreement, at a redemption price equal to the principal amount thereof, together with accrued interest to the date fixed for redemption, without premium.

Selection of Certificates for Redemption

Whenever provision is made in the Trust Agreement for the redemption of Certificates and less than all Outstanding Certificates are called for redemption, the Trustee shall select Certificates for redemption in any order of maturity as selected in writing by the District (and if not selected by the District, on a pro rata basis) and by lot within a maturity. The Trustee shall promptly notify the District and the Corporation in writing of the Certificates so selected for redemption.

Notice of Redemption

Notice of any such redemption shall be given by the Trustee on behalf and at the expense of the District by mailing a copy of a redemption notice by first class mail at least thirty (30) days and not more

than sixty (60) days prior to the date fixed for redemption to such Owner of the Certificate or Certificates to be redeemed at the address shown on the Certificate Register maintained by the Trustee; *provided, however,* that neither the failure to receive such notice nor any defect in any notice shall affect the sufficiency of the proceedings for the redemption of the Certificates.

All notices of redemption shall be dated and shall state: (i) the redemption date, (ii) the redemption price, (iii) if less than all Outstanding Certificates are to be redeemed, the identification (and, in the case of partial redemption, the respective principal amounts) of the Certificates to be redeemed and a statement that such redemption shall be conditioned on the timely delivery by or on behalf of the District to the Trustee of the funds required for such redemption, (iv) that on the redemption date the redemption price will become due and payable with respect to each such Certificate or portion thereof called for redemption, and that interest with respect thereto shall cease to accrue from and after said date, (v) the place where such Certificates are to be surrendered for payment of the redemption price, which place of payment shall be the Principal Corporate Trust Office.

Prior to the mailing of any redemption notice (other than a redemption notice relating to Certificates that are the subject of an advance refunding), the District shall deposit, or cause to be deposited, with the Trustee an amount of money sufficient to pay the redemption price of all the Certificates or portions of Certificates which are to be redeemed on the applicable redemption date. In the case of a redemption notice relating to Certificates that are the subject of an advance refunding, the District shall deposit, or cause to be deposited, with the Trustee on or prior to the redemption date, an amount of money sufficient to pay the redemption price of all the Certificates or portions of Certificates which are to be redeemed on such redemption date.

Notice of redemption having been given as aforesaid, the Certificates or portions of Certificates so to be redeemed shall, on the redemption date, become due and payable at the redemption price therein specified, and from and after such date (unless the District shall default in the payment of the redemption price) interest with respect to such Certificates or portions of Certificates shall cease to be payable. Upon surrender of such Certificates for redemption in accordance with said notice, such Certificates shall be paid by the Trustee at the redemption price. Installments of interest due on or prior to the redemption date shall be payable as herein provided for payment of interest. Upon surrender for any partial redemption of any Certificate, there shall be executed and delivered for the Owner a new Certificate or Certificates of the same maturity in the amount of the unredeemed principal. All Certificates which have been redeemed shall be canceled by the Trustee, shall not be reissued and shall be destroyed pursuant to the Trust Agreement.

In addition to the foregoing notice, notice shall be given by the Trustee by telecopy, registered, certified or overnight mail, to all Securities Depositories one Business Day prior to the date of mailing of notice to the Owners and to an Information Service on the date such notice is mailed to the Owners, which shall state the information set forth above, but no defect in said notice nor any failure to give all or any portion of such further notice shall in any manner defeat the effectiveness of a call for redemption if notice thereof is given as prescribed above.

Neither the District nor the Trustee shall have any responsibility for a defect in the CUSIP number that appears on any Certificate or in the redemption notice. The redemption notice may provide that the CUSIP numbers have been assigned by an independent service and are included in the notice solely for the convenience of Certificate Owners and that the Trustee and the District shall not be liable in any way for inaccuracies in said numbers.

Upon surrender of any Certificate redeemed in part only, the Trustee shall execute and deliver to the Owner thereof, at the expense of the District, a new Certificate or Certificates of authorized denominations equal in aggregate principal amount to the unredeemed portion of the Certificate surrendered and of the same interest rate and the same maturity.

Notice having been given as aforesaid, and the moneys for the redemption, including interest to the applicable Interest Payment Date and premium, if any, having been set aside in the Installment Payment Fund, the Certificates to be redeemed shall become due and payable on said Interest Payment Date, and, upon presentation and surrender thereof at the office or offices specified in said notice, said Certificates shall be paid at the unpaid principal amount with respect thereto, plus redemption premium, if any, and any unpaid and accrued interest to said Interest Payment Date.

If, on said Interest Payment Date, moneys for the redemption of all the Certificates to be redeemed, together with interest to said Interest Payment Date, shall be held by the Trustee so as to be available therefor on such Interest Payment Date, and, if notice of redemption thereof shall have been given as aforesaid, then, from and after said Interest Payment Date, interest with respect to the Certificates to be redeemed shall cease to accrue and become payable. If said moneys shall not be so available on said Interest Payment Date, interest with respect to such Certificates shall continue to be payable at the same rates as it would have been payable had the Certificates not been called for redemption. All moneys held by or on behalf of the Trustee for the redemption of particular Certificates shall be held in trust for the account of the Owners of the Certificates so to be redeemed. The Trustee shall not be liable for any interest earned on the amounts so held.

Book-Entry Only System

The Certificates will be initially executed, delivered and registered as one fully registered certificate for each maturity, without coupons, in the name of Cede & Co., as nominee of DTC. DTC will act as securities depository of the Certificates. Individual purchases may be made in book-entry form only, in the principal amount of \$5,000 and integral multiples thereof. Purchasers will not receive physical certificates representing their interest in the Certificates purchased. Principal and interest will be paid to DTC which will in turn remit such principal and interest to its participants for subsequent disbursement to the beneficial owners of the Certificates as described herein. So long as DTC's book-entry system is in effect with respect to the Certificates, notices to Owners of the Certificates by the District or the Trustee will be sent to DTC. Notices and communication by DTC to its participants, and then to the beneficial owners of the Certificates, will be governed by arrangements among them, subject to then effective statutory or regulatory requirements. See APPENDIX E—BOOK-ENTRY ONLY SYSTEM.

In the event that such book-entry system is discontinued with respect to the Certificates, the District will cause the Trustee to execute and deliver replacements in the form of registered certificates and, thereafter, the Certificates will be transferable and exchangeable on the terms and conditions provided in the Trust Agreement. In addition, the following provisions would then apply: Payment of interest due with respect to any Certificate on any Interest Payment Date will be made to the person appearing on the Registration Books as the Owner thereof as of the Regular Record Date immediately preceding such Interest Payment Date, such interest to be paid by check mailed on the Interest Payment Date by first class mail to such Owner at his or her address as it appears on the Registration Books as of such Regular Record Date or, upon written request filed with the Trustee prior to the Regular Record Date by an Owner of at least \$1,000,000 in aggregate principal amount of Certificates, by wire transfer in

immediately available funds to an account in the United States designated by such Owner in such written request. Any such written request will remain in effect until rescinded in writing by the Owner. The principal and redemption price with respect to the Certificates at maturity or upon prior redemption shall be payable by check denominated in lawful money of the United States of America upon surrender of the Certificates at the Principal Corporate Trust Office.

SOURCE OF PAYMENT FOR THE CERTIFICATES

General

Each Certificate represents a direct, undivided fractional interest in Installment Payments to be made by the District to the Corporation under the Installment Sale Agreement. The Corporation, pursuant to the Assignment Agreement, will assign certain of its rights under the Installment Sale Agreement to the Trustee for the benefit of the Owners, including its right to receive Installment Payments and prepayments made under the Installment Sale Agreement and its rights to enforce payment of the Installment Payments when due in the event of a default by the District. The obligation of the District to make Installment Payments constitutes a special obligation of the District payable solely from a first and prior lien on the Net Revenues, certain net proceeds of insurance or condemnation proceedings pertaining to the Project to the extent that such net proceeds are not used for the repair, reconstruction or replacement of the Project pursuant to the Installment Sale Agreement, and certain interest and other income derived from the investment of moneys held in funds and accounts held by the Trustee for the District pursuant to the Trust Agreement.

No Reserve Fund

A reserve fund will not be established for the Certificates.

Special Obligation of the District

The District's obligation to pay the Installment Payments shall be a special obligation limited solely to Net Revenues. Under no circumstances shall the District be required to advance any moneys derived from any source of income other than the Net Revenues and other sources specifically identified herein for the payment of the Installment Payments, nor shall any other funds or property of the District be liable for the payment of the Installment Payments.

"Net Revenues" means Gross Water System Revenues less Operation and Maintenance Expenses.

"Gross Water System Revenues" means all gross income and revenue received by the District from the ownership and operation of the Water System, including, without limiting the generality of the foregoing, (a) all income, rents, rates, fees, charges or other moneys derived from the services, facilities and commodities sold, furnished or supplied through the facilities of the Water System, (b) the earnings on and income derived from the investment of such income, rents, rates, fees, charges or other moneys to the extent that the use of such earnings and income is limited by or pursuant to the law to the Water System, (c) the proceeds derived by the District directly or indirectly from the sale, lease or other disposition of a part of the Water System as permitted in the Installment Sale Agreement, and (d) all investment earnings credited by the Trustee under the Trust Agreement to the Installment Payment Fund;

provided, however, that the term “Gross Water System Revenues” shall not include customers’ deposits or any other deposits subject to refund until such deposits have become the property of the District.

“*Maintenance and Operation Costs of the Water System*” means, for any period, all reasonable and necessary costs paid or incurred by the District during such period for maintaining and operating the Water System and delivering or providing Water Service thereunder, determined in accordance with generally accepted accounting principles, including all costs of water produced or purchased by the District for resale through the Water System, and including all reasonable expenses of management and repair and all other expenses necessary to maintain and preserve the Water System in good repair and working order, and including all administrative costs of the District that are charged directly or apportioned to the operation of the Water System, such as salaries and wages of employees, overhead, taxes (if any) and insurance premiums, and including all other reasonable and necessary costs of the District or charges required to be paid by it to comply with the terms of the Installment Sale Agreement, the Trust Agreement or of any resolution authorizing the execution of any Installment Purchase Contract or of any such Installment Purchase Contract or of any resolution authorizing the issuance of any bonds or of any such bonds, such as compensation, reimbursement and indemnification of the trustee, seller or lessor for any such Installment Purchase Contracts or bonds and the fees of any Independent Certified Public Accountants or Independent Engineers, but excluding in all cases, depreciation, replacement and obsolescence charges or reserve therefor and amortization of intangibles.

The obligations of the District to make the Installment Payments from Net Revenues and to perform and observe the other agreements contained in the Installment sale Agreement shall be absolute and unconditional and shall not be subject to any defense or any right of set-off, counterclaim or recoupment arising out of any breach of the District, the Corporation or the Trustee of any obligation to the District or otherwise with respect to the Water System, whether under the Installment Sale Agreement or otherwise, or out of indebtedness or liability at any time owing to the District by the Corporation or the Trustee. Until such time as all of the Installment Payments shall have been fully paid or prepaid, the District (a) will not suspend, abate, or discontinue any payments provided for in the Installment Sale Agreement, (b) will perform and observe all other agreements contained in the Installment Sale Agreement, and (c) will not terminate the Term of the Installment Sale Agreement 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 Water System, the taking by eminent domain of title to or temporary use of any or all of the Water System, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State or any political subdivision of either thereof or any failure of the Corporation or 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 Trust Agreement, the Assignment Agreement or the Installment Sale Agreement.

Nothing shall be construed to release the Corporation from the performance of any of the agreements on its part contained in the Installment Sale Agreement, and in the event the Corporation shall fail to perform any such agreements on its part, the District may institute such action against the Corporation as the District may deem necessary to compel performance so long as such action does not abrogate the obligations of the District contained in the first sentence of the preceding paragraph. The District may, however, at the District’s own cost and expense and in the District’s own name or in the name of the Corporation prosecute or defend any action or proceeding or take any other action involving third persons which the District deems reasonably necessary in order to secure or protect the District’s right of possession, occupancy and use hereunder, and in such event the Corporation has agreed to

cooperate fully with the District and to take such action necessary to effect the substitution of the District for the Corporation in such action or proceeding if the District shall so request.

Pledge of Net Revenues; Deposits to Pay Installment Payments; Release from Lien

Pledge of Net Revenues. The District has agreed that the payment of the Installment Payments shall be secured by a pledge, charge and first and prior lien upon Net Revenues, and Net Revenues sufficient to pay the Installment Payments as they become due and payable, are pledged, charged, assigned, transferred and set over by the District to the Corporation and its assigns for the purpose of securing payment of the Installment Payments. The Net Revenues shall constitute a trust fund for the security and payment of the Installment Payments.

Transfer to Pay Installment Payments. In order to provide for the payment of Installment Payments when due, the District shall, on or before each Installment Payment Date, transfer to the Trustee for deposit into the Installment Payment Fund the amount required for the next occurring Installment Payment Date. The District shall be obligated to make Installment Payments sufficient to pay all principal and interest due with respect to the Certificates.

Release from Lien. Following the transfer described above with respect to the June 15 Installment Payment Date, Net Revenues in excess of amounts required for the payment of Installment Payments and any Parity Debt and for the replenishment of the Reserve Fund, in that Fiscal Year shall be released from the lien of the Installment Sale Agreement and shall be available for any lawful purpose of the District.

Rate Covenant

Subject to the requirements and limitations of Proposition 218, the District covenants that it shall prescribe, revise and collect such charges for the services and facilities of the Water System which, after allowances for contingencies and error in the estimates, shall produce Water System Revenues sufficient in each Fiscal Year to provide Net Revenues equal to 1.30 times (i) the Installment Payments coming due and payable during such Fiscal Year, and (ii) all payments required to pay debt service on Parity Debt coming due and payable during such Fiscal Year. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS—Proposition 218" below.

Limitations on Future Obligations Secured by Net Revenues

No Obligations Superior to Installment Payments. In order to protect further the availability of the Net Revenues and the security for the Installment Payments and any Parity Debt, the District hereby agrees that the District shall not, so long as any Certificates are outstanding, issue or incur any obligations payable from Water System Revenues or Net Revenues superior to the Installment Payments or such Parity Debt.

Parity Debt. The District covenants that, except for obligations issued or incurred to prepay the Installment Payments in full pursuant to the Installment Sale Agreement, the District shall not issue or incur any Parity Debt unless:

- (i) The District is not in default under the terms of the Installment Sale Agreement;

(ii) The Net Revenues for the most recent audited Fiscal Year preceding the date of the adoption by the Board of Directors of the District of the resolution authorizing the incurrence of such Parity Debt, as evidenced by both a calculation prepared by the District and the special report prepared by an Independent Certified Public Accountant on such calculation on file with the District, shall have produced a sum equal to at least one hundred thirty per cent (130%) of the Debt Service for such Fiscal Year, and

(iii) The estimated Net Revenues for the then current Fiscal Year and for each Fiscal Year thereafter to and including the first complete Fiscal Year after the latest date of operation of any uncompleted Project, as evidenced by an Engineer's Report on file with the District, plus (after giving effect to the completion of all uncompleted Projects) an allowance for estimated Net Revenues for each of such Fiscal Years arising from any increase in the rates, fees and charges estimated to be fixed and prescribed for the Water Service and which are economically feasible and reasonably considered necessary based on projected operations for such period, as evidenced by such Engineer's Report on file with the District, shall produce a sum equal to at least one hundred thirty per cent (130%) of the estimated Debt Service for each of such Fiscal Years, after giving effect, in either case, to the execution of all Parity Debt estimated to be required to be executed or issued to pay the costs of completing all uncompleted Projects, assuming that all such Parity Debt have maturities, interest rates and proportionate principal repayment provisions similar to the Parity Debt that were first issued for the purpose of acquiring and constructing such uncompleted Project.

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

(A) An allowance for revenues from any additions to or improvements or extensions of the Water System to be constructed with the proceeds of such additional obligations, and also for net revenues from any such additions, improvements or extensions which have been from moneys from any source but which, during all or any part of such Fiscal Year, were not in service, all in an amount equal to 70% of the estimated additional average annual Net Revenues to be derived from such additions, improvements and extensions for the first 36-month period following closing of the proposed Parity Debt, all as shown by the certificate or opinion of a qualified independent consultant employed by the District, may be added to such Net Revenues for the purpose of applying the restriction contained in this subsection (iii).

(B) An allowance for earnings arising from any increase in the charges made for service from the Water System which has become effective prior to the incurring of such additional obligations but which, during all or any part of such Fiscal Year, 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 and any period prior to the incurring of such additional obligations, as shown by the certificate or opinion of a qualified independent engineer employed by the District.

(iv) Interest with respect to such Parity Debt shall be paid on the Interest Payment Dates.

(v) Principal with respect to such Parity Debt shall be paid on December 1.

The District shall deliver to the Trustee a Certificate of the District certifying that the conditions precedent to the issuance of such Parity Debt have been satisfied.

Subordinate Debt. The District covenants that it shall not issue or incur any Subordinate Debt unless:

(i) The District is not in default under the terms of the Installment Sale Agreement;

(ii) Net Revenues, 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 Subordinate Debt is issued or incurred, plus, at the option of the District, the additional allowance described below, shall have amounted to at least 1.0 times the maximum Debt Service coming due and payable in any future Fiscal Year;

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

(A) An allowance for revenues from any additions to or improvements or extensions of the Water System to be constructed with the proceeds of such additional obligations, and also for net revenues from any such additions, improvements or extensions which have been from moneys from any source but which, during all or any part of such Fiscal Year, were not in service, all in an amount equal to 70% of the estimated additional average annual Net Revenues to be derived from such additions, improvements and extensions for the first 36-month period following closing of the proposed Parity Debt, all as shown by the certificate or opinion of a qualified independent consultant employed by the District, may be added to such Net Revenues for the purpose of applying the restriction contained in this subsection (ii).

(B) An allowance for earnings arising from any increase in the charges made for service from the Water System which has become effective prior to the incurring of such additional obligations but which, during all or any part of such Fiscal Year, 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 and any period prior to the incurring of such additional obligations, as shown by the certificate or opinion of a qualified independent engineer employed by the District.

(iii) Interest with respect to such Subordinate Debt shall be paid on the Interest Payment Dates; and

(iv) Principal with respect to such Subordinate Debt shall be paid on December 1.

The District shall deliver to the Trustee a Certificate of the District certifying that the conditions precedent to the issuance of such Subordinate Debt have been satisfied.

State Loans. The District may borrow money from the State to finance improvements to the Water System, without complying with the provisions of paragraphs (iv) or (v) above, relating to the

issuance of Parity Debt, and the obligation of the District to make payments to the State under the loan agreement memorializing said loan (the "State Loan") may be treated as Parity Debt for purposes of the Installment Sale Agreement; provided that the District shall not make a payment on such State Loan (except as hereinafter expressly provided) to the extent it would have the effect of causing the District to fail to pay Installment Payments on a timely basis. In the event the Water System does not produce sufficient funds to make the full Installment Payments and such State Loan, the District shall make Installment Payments and such State Loan on a pro rata basis.

Additional Payments

In addition to the Installment Payments, the District shall pay, from Net Revenues, when due, all costs and expenses incurred by the Corporation to comply with the provisions of the Trust Agreement and the Installment Sale Agreement, including, without limitation all Delivery Costs (to the extent not paid from amounts on deposit in the Delivery Costs Fund), compensation due to the Trustee for its fees, costs and expenses incurred under the Trust Agreement and the Assignment Agreement, compensation due to the Corporation for its fees, costs and expenses incurred under the Trust Agreement and all costs and expenses of attorneys, auditors, engineers and accountants.

Installment Payments

Installment Payments are required to be made by the District under the Installment Sale Agreement on the fifteenth (15th) day of each May and November (each a “Due Date”). The Trust Agreement requires that Installment Payments be deposited in the Installment Payment Fund maintained by the Trustee. Pursuant to the Trust Agreement, the Trustee will apply such amounts in the Installment Payment Fund as are necessary to make principal and interest payments due with respect to the Certificates on June 1 and December 1 of each year. The following table shows the debt service requirements of the Certificates:

Year Ending December 1	Principal Component*	Interest Component	Total
2017	\$ 370,000		
2018	385,000		
2019	400,000		
2020	415,000		
2021	430,000		
2022	445,000		
2023	465,000		
2024	480,000		
2025	500,000		
2026	515,000		
2027	535,000		
2028	555,000		
2029	580,000		
2030	600,000		
2031	620,000		
2032	645,000		
2033	670,000		
2034	695,000		
2035	720,000		
2036	750,000		
2037	775,000		
2038	805,000		
2039	835,000		
2040	870,000		
2041	900,000		
2042	935,000		
2043	970,000		
2044	1,005,000		
2045	1,045,000		
2046	1,085,000		
TOTAL	\$20,000,000		

*Preliminary, subject to change.

Flow of Funds

Pursuant to the terms of the Installment Sale Agreement, on the fifteenth day of each May and November, the District is legally required to make Installment Payments to the Trustee from Net

Revenues, designed to be equal to the amount necessary for the Trustee to pay the principal and interest with respect to the Certificates due and payable on each June 1 and December 1. Pursuant to the terms of the Trust Agreement, (i) all Installment Payments received by the Trustee from the District, (ii) certain net proceeds awarded in insurance or eminent domain proceedings to the extent not used to repair or replace the Project, and (iii) any other moneys required to be deposited pursuant to the Installment Sale Agreement or the Trust Agreement, shall be deposited in the Installment Payment Fund, except to the extent required to be deposited in the Reserve Fund to remedy a deficiency therein resulting from a prior draw.

The Trustee shall promptly distribute, on each June 1 and December 1, the moneys on deposit in the Installment Payment Fund to the Owners in payment of principal and interest then due with respect to the Certificates.

If on any May 15 or November 15, the amount of the Installment Payments then due and unpaid exceeds the amount on hand in the Installment Payment Fund, the Trustee will transfer the necessary amount from the Reserve Fund, and in the event a deficiency remains in the Installment Payment Fund, the Trustee shall apply amounts transferred from the Reserve Fund, together with all other moneys on hand in the Installment Payment Fund first to the payment of interest past due with respect to all outstanding Certificates, pro rata if necessary, and second to the payment of the unpaid principal balance with respect to each Certificate which is then past due, pro rata if necessary.

Any surplus remaining in the Installment Payment Fund after redemption and payment of all Certificates, including accrued interest, if any, and payment of any applicable fees to the Trustee, or provision for such redemption or payment having been made to the satisfaction of the Trustee, shall then be remitted to the District.

Limitations on Remedies Available to Owners of the Certificates and the Trustee

The enforceability of the rights and remedies of the Owners of the Certificates and the Trustee, and the obligations incurred by the District, may be subject to the following: the Federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; usual equity principles which may limit the specific enforcement under state law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Federal Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State of California and its governmental bodies in the interest of serving a significant and legitimate public purpose. Bankruptcy proceedings, or the exercise of powers by the federal or state government, if initiated, could subject the Owners of the Certificates to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitations, or modification of their rights. Remedies may be limited since the Project serves an essential public purpose.

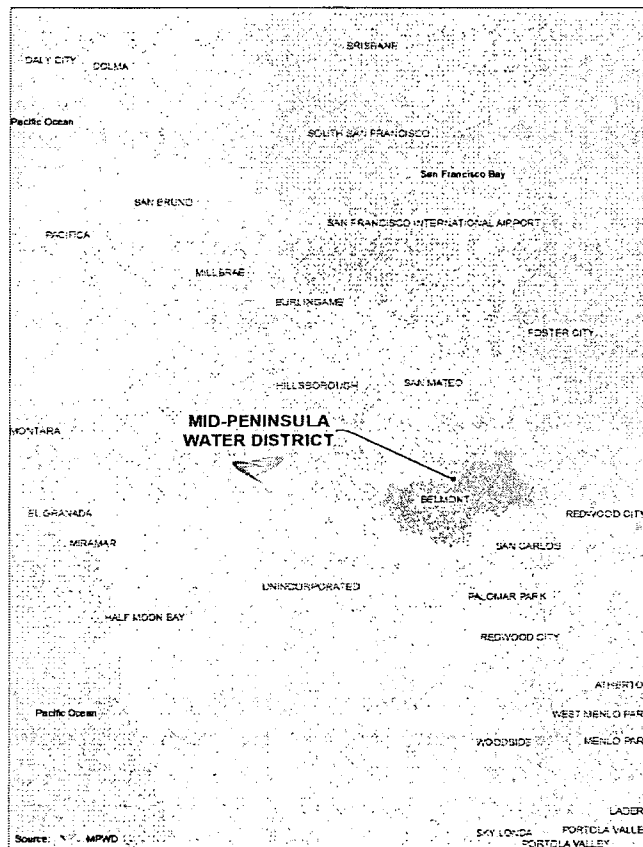
THE MID-PENINSULA WATER DISTRICT

General

The District is a special district formed in 1929 under the County Water District Act of California. The District is located in east central San Mateo County on the San Francisco Peninsula, about 30 miles south of San Francisco, in California.

In the 1930s the District contracted with the San Francisco Public Utilities Commission (“SFPUC”) to purchase water from the newly built Hetch Hetchy regional water system, eliminating local dependence on small, unreliable wells and gaining a more secure, reliable and expandable source of water supply.

District Location and Service Area



Source: Mid-Peninsula Water District

The District supplies water to consumers in an area slightly larger than the city limits of the City of Belmont. Small portions of the service area are within the city limits of the City of San Carlos, and parts of the unincorporated County of San Mateo. The District’s service territory covers approximately five (5) square miles and currently serves approximately 27,000 people.

Governance

A five-member Board of Directors (the “District Board”) governs the District. Each Director is elected at large within the District’s service area. The Directors serve overlapping four-year terms. The District Board annually selects a President and Vice President from among its members. The current Directors are:

Matthew P. Zucca, President. Mr. Zucca was first appointed to the District Board in October 2005. For more than 20 years, Mr. Zucca has been a professional engineer in the Bay Area specializing in capital program management and a wide range of stormwater projects in California. Currently he is Principal Engineer with Erler & Kalinowski, Inc., (EKI) Consulting Engineers and Scientists. Mr. Zucca resides in Belmont. Mr. Zucca has a B.S. in Civil and Environmental Engineering, University of California, Davis, 1993 (Dual Specialization in Structural and Environmental Engineering).

Dave Warden, Vice President. Mr. Warden was first elected to the District Board in November 2013. Mr. Warden’s career in software engineering and management has spanned some 30 years in the Bay Area. He founded a part-time software consulting firm in 1985 and launched it into a fulltime business in 1995 developing software for consumer electronics, robotics, test equipment, lasers, and medical equipment. Mr. Warden resides in Belmont. Mr. Warden has a B.A. in Computer Science, University of California, Berkeley, 1985.

Al Stuebing. Mr. Stuebing was first elected to the District Board in November 2009. Mr. Stuebing held the position of Director of Account Services when he retired after a 30-year career with the Pacific Gas and Electric Company. Mr. Stuebing resides in Belmont. Mr. Stuebing has a B.S. in Mechanical Engineering, University of California, Berkeley, 1975.

Louis J. Vella. Mr. Vella was first elected to the Board in November 1999. Mr. Vella has over 40 years of professional work experience both in the private and public sector. He retired as Administrative Chief-Fire Marshal in 2008 after serving 28 years with the City of Redwood City. Mr. Vella was appointed by the District to the Board of Directors of the Bay Area Water Supply and Conservation Agency (“BAWSCA”) and has served since it was established in 2003. He also serves as a member of the BAWSCA Board Policy Committee. Mr. Vella resides in Belmont. Mr. Vella has a B.A. in Management, St. Mary’s College, Moraga, 1988.

Betty L. Linvill. Ms. Linvill was first appointed to the District Board in July 2007. Ms. Linvill had a long career in commercial finance, working primarily for major California banking institutions. She retired at the end of March 2014 as Deputy Chief Credit Officer for East West Bank. Ms. Linvill resides in Belmont. Ms. Linvill has a MBA (Business), Alliant International University, 1989. Graduate, Commercial Banking, Pacific Coast Banking School at the University of Washington, 1979.

All of the Directors are locally active in the community and serve on Boards and as volunteers for numerous civic and non-profit organizations.

Management

The District Board appoints a General Manager, Board Secretary, District Counsel, District Engineer, and District Treasurer. The General Manager oversees the day-to-day operations and activities of the District and reports to the Board. The current District management and officers are:

Tammy Rudock, General Manager. Ms. Rudock joined the District as a contract manager in September 2012. She was appointed by the District Board as General Manager in December 2012. Ms. Rudock is responsible for managing the day-to-day operations and activities of the District. Her professional career spans 25 years dedicated to public service, including water and wastewater operations, public works operations, airports administration, and parks and recreation operations, including open space preservation, in California and Louisiana. Ms. Rudock has a J.D., Concord Law School, Los Angeles, 2005. MBA (Management Specialty), Louisiana Tech University, 1993. B.A. in General Studies (Major in Business Administration), Louisiana Tech University 1990.

Candy Pina, Administrative Services Manager/Board Secretary. Mrs. Pina joined the District as a contract manager in June 2012. She was appointed by the General Manager as Administrative Services Manager in December 2012. Mrs. Pina has worked for more than 30 years in the Bay Area primarily as a financial controller for private companies and start-ups. She is responsible for the District's financial, accounting, customer service, and human resources functions. Mrs. Pina has a B.S. in Accounting, San Jose State University, 1995.

Rene Ramirez, Operations Manager. Mr. Ramirez was appointed by the General Manager as Operations Manager in June 2015. He has almost 30 years of service in the public utility field. During his career, Mr. Ramirez has been responsible as the department head in cities large and small for water distribution infrastructure and water treatment facilities, wastewater collection infrastructure and wastewater treatment facilities, solid waste and diversion programs, and a natural gas distribution system. Mr. Ramirez has a B.S. in Agricultural/Bio Resource Engineering, Cal Poly, San Luis Obispo, 1984.

Employees

The District's staff consists of 18 full-time employees all of whom are at-will. A letter agreement dated October 23, 2014, exists between the District and the District Employees Association (15 members; non-exempt employees). It expires on September 25, 2018.

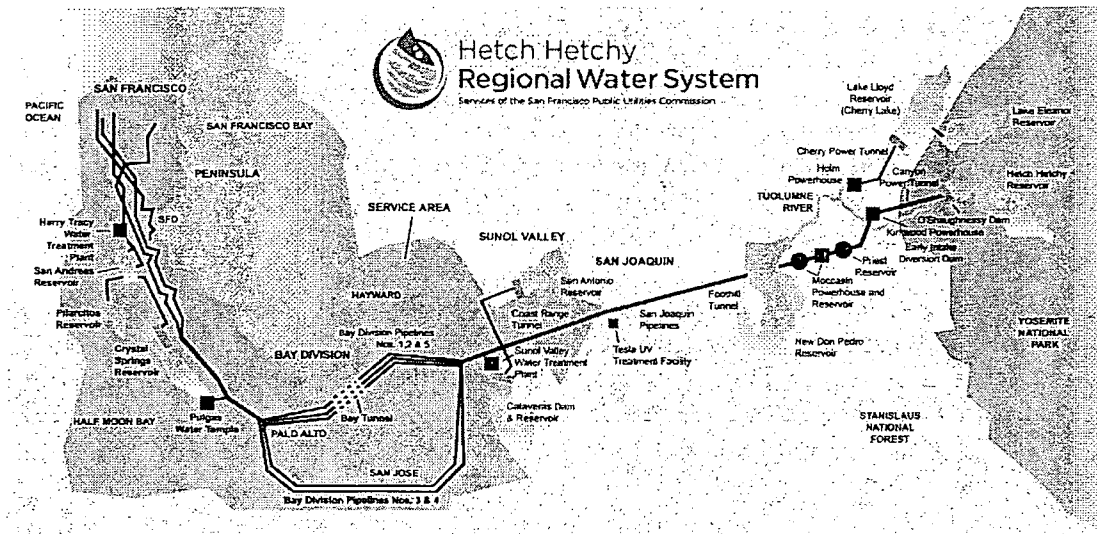
WATER SYSTEM

Water Rights

District Water Supply. The District purchases 100% of its water from the SFPUC Regional Water System ("SFPUC RWS"), making the District dependent on SFPUC's supply reliability. The SFPUC RWS is predominantly from the Sierra Nevada, delivered through the Hetch Hetchy aqueducts, but it also includes treated water produced by the SFPUC from its local watersheds and facilities in Alameda and San Mateo Counties.

The SFPUC RWS is a 167-mile, gravity-driven network of dams, reservoirs, tunnels, pump stations, aqueducts, and pipelines that collects Tuolumne River runoff on federal land near the Yosemite Valley and transports it to the San Francisco Bay Area.

SFPUC REGIONAL WATER SYSTEM MAP

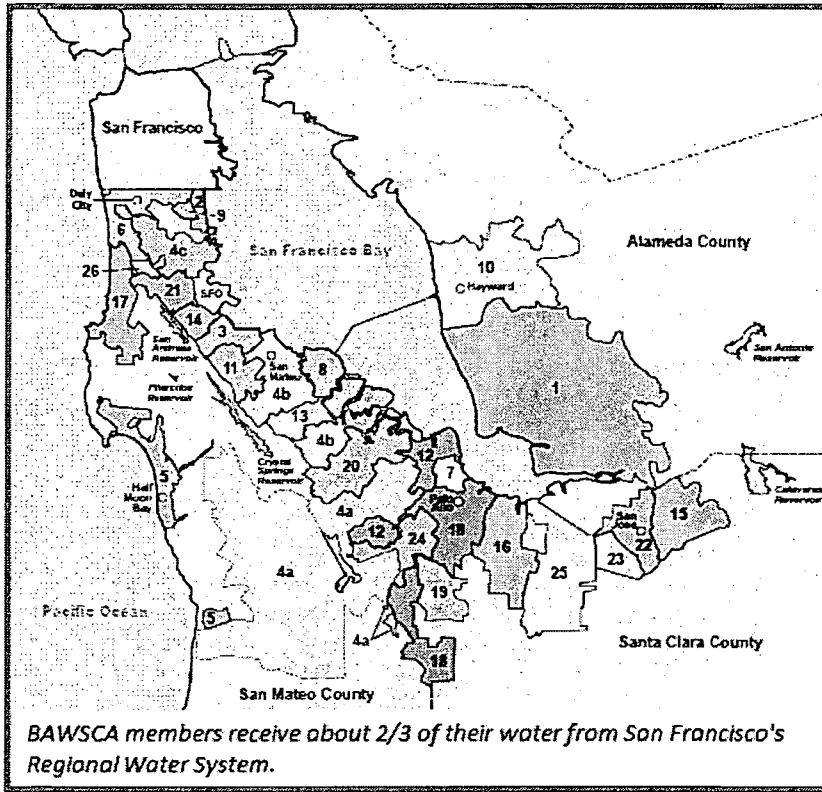


Source: SFPUC

Water from the SFPUC RWS is treated before delivery and supplied to the District from two connections: Bay Division Pipelines 1 and 2, and the Crystal Springs Bypass Tunnel. The SFPUC water is delivered to the District in two ways: 1) via a 20-inch water transmission pipeline that is connected to the SFPUC system in Redwood City; and 2) via a 24-inch pipeline connected to a pump station on the SFPUC watershed property near the Pulgas Water Temple.

Regional Water Reliability Planning. The District is a member of the Bay Area Water Supply and Conservation Agency (“BAWSCA”) that provides regional water reliability planning and conservation programming for the benefit of its member agencies that purchase wholesale water supplies from the SFPUC. BAWSCA was created on May 27, 2003, enabled by a special act of the California Legislature, to represent the interests of 16 cities, 8 water districts, and 2 private water providers on all significant technical, financial, and policy matters related to the operation and improvement of the SFPUC RWS. BAWSCA members are located in Alameda, Santa Clara, and San Mateo Counties.

BAWSCA MEMBER AGENCIES MAP



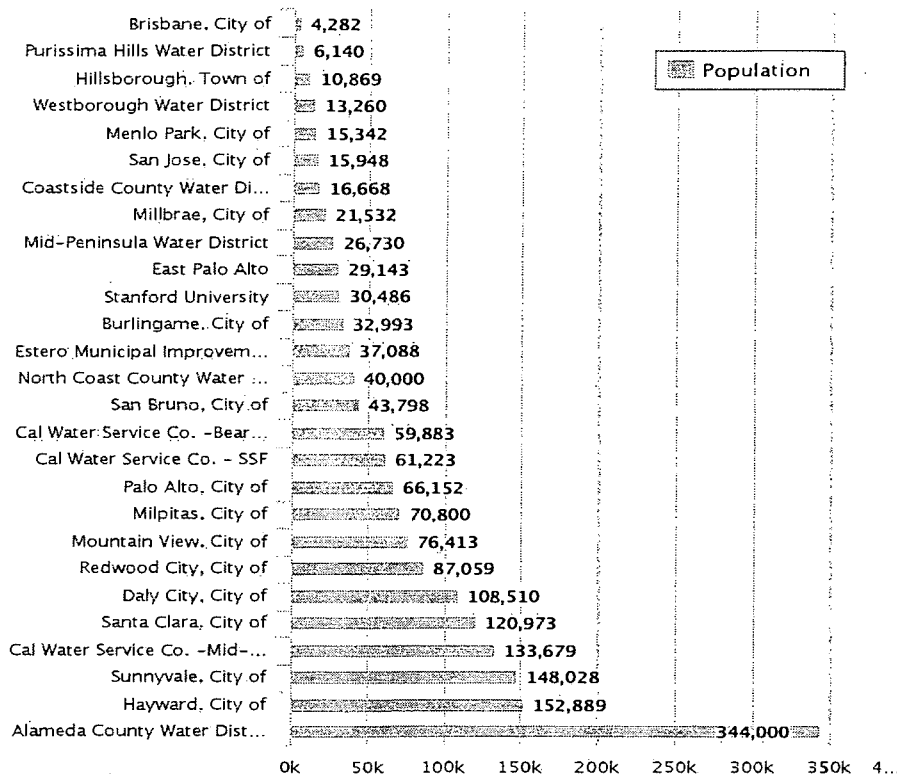
Source: BAWSCA

Note: The District is the highlighted area #13 in the above BAWSCA map.

Collectively, the BAWSCA member agencies deliver water to over 1.74 million residents and nearly 40,000 commercial, industrial, and institutional accounts in the Bay Area.

Member Agency Population

Source: 2014-2015 BAWSCA Annual Survey



Source: BAWSCA

The District's Individual Supply Guarantee. The SFPUC has a perpetual commitment (Supply Assurance) to deliver 184 mgd to the permanent wholesale customers (collectively the BAWSCA member agencies referred to as the “wholesale customers”). The Supply Assurance is allocated among the 24 permanent wholesale customer through Individual Supply Guarantees (“ISGs”), which represent each wholesale customer’s allocation of the 184 mgd Supply Assurance. The District’s ISG allocation from the SFPUC is 3.891 mgd (1,420.22 MG per year).

2018 Interim Supply Limitation. On December 14, 2010, the SFPUC adopted a water supply limitation, the Interim Supply Limitation (“ISL”), which limits sales from the SFPUC RWS watersheds to an average annual of 265 mgd through December 31, 2018. All 26 wholesale customers and San Francisco are subject to the ISL. The wholesale customers’ collective allocation under the ISL is 184 mgd and San Francisco’s is 81 mgd. Although the wholesale customers did not agree to the ISL, the Water Supply Agreement provides a framework for administering the ISL. Each BAWSCA member agency’s ISL is lower than its perpetual commitment (Supply Assurance) from the SFPUC through December 31, 2018. The District’s ISL is 3.71 mgd (1,354.15 MG per year) compared with its Supply Assurance from the SFPUC of 3.891 mgd (1,420.22 MG per year).

Water System Facilities

The District operates and maintains a complex distribution system that includes: 9 pressure zones, 20 pumps, 13 water regulating valves, 813 fire hydrants, and 11 water storage tanks ranging in size from 110,000 gallons to 2,300,000 gallons, all made of steel, for an overall storage capacity of 13,600,000 gallons.

Most of the storage tanks within the District have been rebuilt, recoated, or seismically retrofitted within the past 15 years with the exceptions of Dekoven and Hallmark Tanks. A list of all the District's storage tanks and their respective capacities is below.

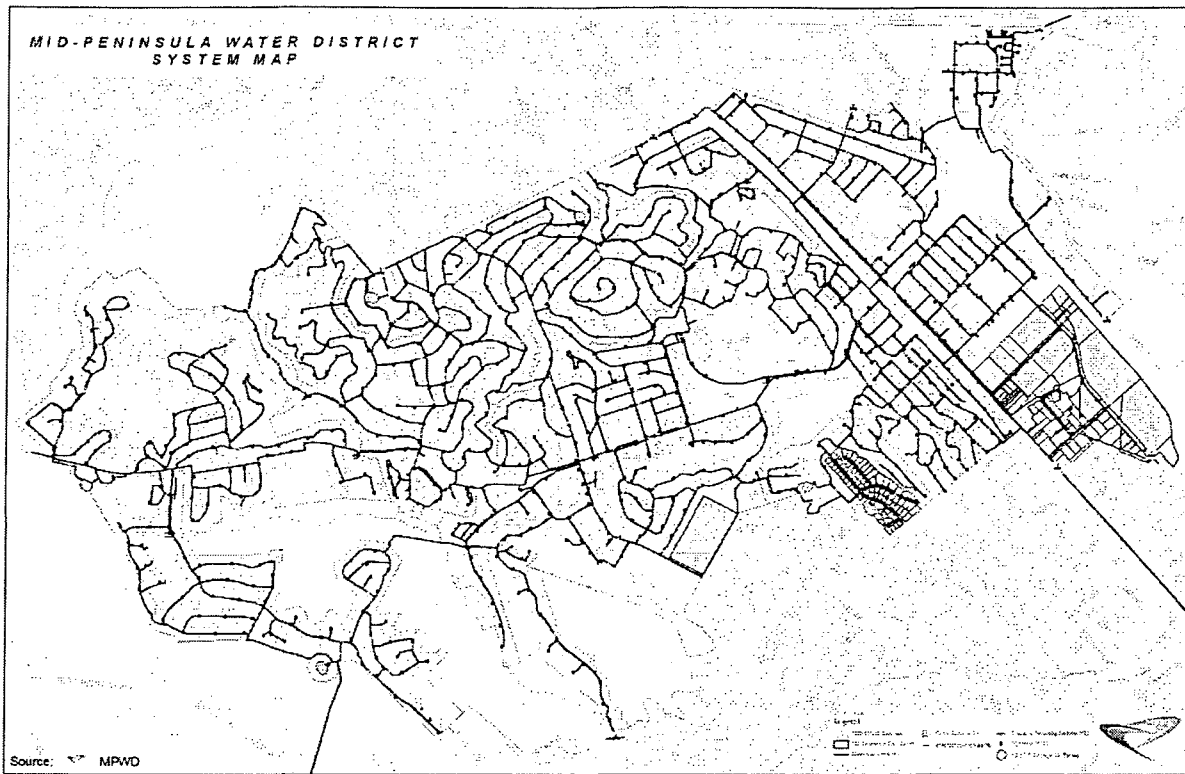
DISTRICT STORAGE TANKS

Tank	Pressure Zone	Total Capacity (GAL)
Hersom	2	1,620,000
Exbourne #1	2	1,020,000
Exbourne #2	2	1,500,000
Dekoven #1	3	760,000
Dekoven #2	3	1,020,000
Buckland #1	5	110,000
Buckland #2	5	110,000
West Belmont #1	7	770,000
West Belmont #2	7	770,000
Hallmark #1	8	2,300,000
Hallmark #2	8	2,300,000
		<u>13,600,000</u>

Source: Mid-Peninsula Water District

In addition to the facilities listed above, the District operates a total of 493,492 feet (93 miles) of water main ranging in size between 4-inch and 24-inch in a variety of material types including cast iron (CIP), asbestos cement (ACP), ductile iron (DIP), polyvinylchloride (PVC), concrete (CCP) and steel (STL). The average age of the water mains throughout the system is approximately 47 years old with an average install date of 1969.

DISTRICT SYSTEM MAP



Source: Mid-Peninsula Water District

The District has the ability to transfer water between pressure zones either in a pump-up or flow-down mode, and there is redundancy built into the District's system so that it can, if necessary, supply all customers from either one of the SFPUC connections.

The District started implementing Automated Metering Infrastructure (AMI) technology in 2012. The AMI technology has many benefits, especially for tracking water use or misuse in near "real time." Approximately 50% or 4,000 AMI meters were in place at the end of 2015.

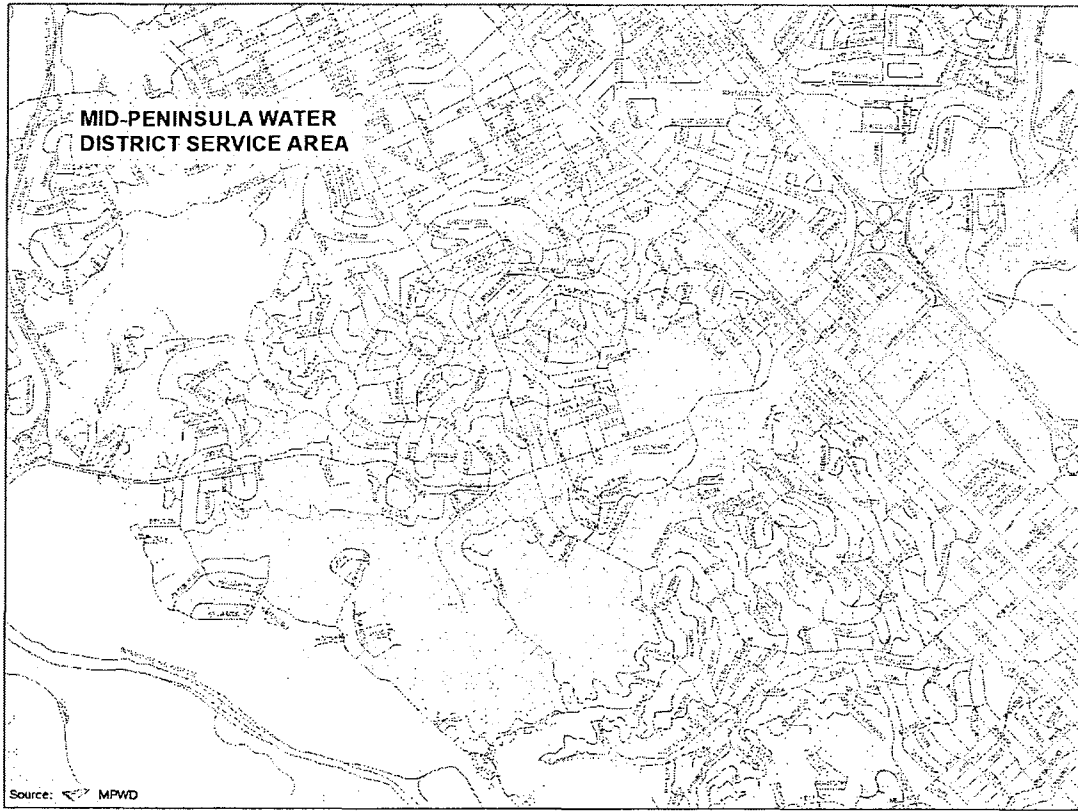
District Service Area

The District service area comprises approximately 5 square miles in an area slightly larger than the city limits of the City of Belmont. Small portions of the District's service area are within the city limits of the City of San Carlos, and parts of the unincorporated County of San Mateo.

The population served by the District in 2015 was approximately 27,000. The District currently has 8,047 total service connections and that include all of the City of Belmont (7,842 connections, 7,082 residential, 721 commercial, and 39 industrial), portions of the City of San Carlos (145 connections, 72 commercial, 73 residential) and portions of unincorporated San Mateo County (60 connections, 46 commercial, 13 industrial, and 1 residential).

A map of the District's service area is below.

DISTRICT SERVICE AREA BOUNDARIES



Source: Mid-Peninsula Water District

Largest Customers

The table below lists the District's ten (10) largest customers for FY 2015-16. The District has adopted a policy of confidentiality with respect to account information on individual water use; however, the ten largest customers shown below collectively accounted for approximately 7.8% of revenue from water sales. Sales from no one customer exceeds 1.4% of total water sales revenue.

10 Largest District Customers

<u>Customer</u>	<u>Type of Business</u>
Accor Economy Lodging	Motel
The Belmont Homeowners	Multi-family apartments (Davey Glen Road)
Notre Dame	School
McClellan Estate Company	Multi-family apartments (Old County Road)
Novartis	Pharmaceutical manufacturing
Sequoia High School District	School
McClellan Estate Company	Multi-family apartments (Crestview Avenue)
McClellan Estate Company	Multi-family apartments (Crestview Avenue)
Lesley Terra c/o Lesley Senior	Assisted living
Silverado Senior Living	Assisted living

Source: Mid-Peninsula Water District

Water Rates and Charges

The District relies primarily on revenues from water service charges to fund its costs of providing water service. As such, water rates must be set at levels adequate to fund the costs of operating and maintaining the water system, pay for wholesale water supplied by the SFPUC, and fund necessary capital investments to keep the water system in good operating condition.

The District has the power and authority under California law to establish rates and charges for service without the review or approval of any other government body. The District's rates and charges are established by ordinance of the District Board. The District has the right to refuse or terminate water service to delinquent customers and to required full payment of delinquent amounts and reconnection charges to resume service.

The District uses a tiered rate structure that includes a fixed system charge for all users and tiered water rates based on the volume of water used. The District has four tiers of residential use and two tiers of commercial use based on the District's cost-of-service analysis, including water cost recovery calculations attributable to each tier, with water first billed in Tier 1 and subsequently billed in higher tiers as water use increases. Water Consumption Charges are billed per hundred cubic feet (hcf), with 1 hcf equal to approximately 748 gallons of water.

The District's service charges were reviewed by the District and its financial consultant, Bartle Wells Associates in 2015. The District developed its 5-year water rates plan, transmitted its rate increase notice to all customers, and successfully conducted the required Proposition 218 public hearing on June 25, 2015. The 5-year rate plan adopted by the District Board is included in the following table and will phase in a series of water rate increases.

5-YEAR WATER RATES PLAN

Proposed Water Rates						
Current Rates	Effective on water bills sent on or after:					
	July 1 2015	July 1 2016	July 1 2017	July 1 2018	July 1 2019	
FIXED MONTHLY CHARGES						
<i>Fixed monthly charge based on meter size</i>						
<u>Meter Size</u>						
5/8-inch	\$18.43	\$22.00	\$24.00	\$26.00	\$28.00	\$30.00
1-inch	27.65	33.00	36.00	39.00	42.00	45.00
1 1/2-inch	46.08	55.00	60.00	65.00	70.00	75.00
2-inch	73.73	88.00	96.00	104.00	112.00	120.00
3-inch	110.59	132.00	144.00	156.00	168.00	180.00
4-inch	184.31	220.00	240.00	260.00	280.00	300.00
6-inch	460.79	550.00	600.00	650.00	700.00	750.00
WATER CONSUMPTION CHARGES						
<i>Billed based on monthly metered water use (\$/hcf)*</i>						
Single Family Residential Customers						
<u>Water Usage Billed in Tier</u>						
Tier 1	0 - 2 hcf	0 - 2 hcf	0 - 2 hcf	0 - 2 hcf	0 - 2 hcf	0 - 2 hcf
Tier 2	3 - 10 hcf	3 - 9 hcf	3 - 8 hcf	3 - 8 hcf	3 - 8 hcf	3 - 8 hcf
Tier 3	11 - 25 hcf	10 - 22 hcf	9 - 20 hcf	9 - 20 hcf	9 - 20 hcf	9 - 20 hcf
Tier 4	Over 25 hcf	Over 22 hcf	Over 20 hcf	Over 20 hcf	Over 20 hcf	Over 20 hcf
<u>Water Consumption Charge per Tier</u>						
Tier 1	\$4.20	\$5.00	\$5.30	\$5.60	\$5.90	\$6.25
Tier 2	6.46	7.50	7.90	8.30	8.65	9.00
Tier 3	7.75	9.00	9.50	10.00	10.50	11.00
Tier 4	9.04	10.50	11.10	11.70	12.35	13.00
All Other Customers						
Tier 1	0 - 5 hcf	\$5.81	\$7.00	\$7.25	\$7.50	\$7.75
Tier 2	Over 5 hcf	6.78	8.00	8.35	8.70	9.10

* 1 hcf = one hundred cubic feet or approximately 748 gallons.

Source: Mid-Peninsula Water District

Besides its schedule of tiered water commodity rates and monthly fixed system charges, the District's 5-year Rates Plan included two additional important provisions: 1) Direct pass-through of SFPUC rate increases over and above its projections; and 2) Water Shortage Emergency Rates, in order to help the District recover its costs of service and remain financially stable during periods of emergency water shortages and reduced water sales.

Pass Through of SFPUC Rate Increases. The adopted 5-year rate plan assumes that the SFPUC will increase its wholesale water rates on July 1 each year from the level of \$2.93 per hcf to \$3.75 per hcf in 2015, \$3.78 per hcf in 2016, \$3.79 per hcf in 2017, \$4.31 per hcf in 2018, and \$4.72 per hcf in 2019. Pursuant to California Government Code 53756, the District proposed to pass-through any additional increases in SFPUC wholesale water rates above these projected SFPUC rates. Future pass-throughs will be implemented by increasing the District's proposed Water Consumption Charges by exact amount of the increase in cents per hcf in excess of the assumed SFPUC wholesale rates.

For example, if the SFPUC raises its wholesale water rate to \$4.51 per hcf on July 1, 2018, the District would be authorized to increase its Water Consumption Charges by an additional \$0.20 per hcf on or after July 1, 2018. Prior to initiating a pass-through for SFPUC wholesale rates, the District will send notification to all customers at least 30 days prior to implementation.

Water Shortage Emergency Rates. In order to help the District recover its costs of service and remain financially stable during periods of emergency water shortages and reduced water sales, the District may authorize the implementation of Water Shortage Emergency Rates. These emergency rates would be implemented in response to escalating drought conditions and water supply shortages, or in response to additional State-mandated cutbacks in water use in excess of 20%, and would replace the District's regular Water Consumption Charges. Water Shortage Emergency Rates may be implemented upon declaration of a water shortage emergency pursuant to Water Code Section 350 and/or Water Code Section 31026. Prior to initiating Water Shortage Emergency Rates, the District will send notification to all customers at least 30 days prior to implementation.

The proposed Water Shortage Emergency Rates may be implemented by authorization of the District Board up to the maximum levels shown on the table below, which correspond with a 50% cutback in water demand from usage in 2013. *(No changes are proposed to Single Family Residential Tier 1 for the Water Shortage Emergency Rates.)*

WATER SHORTAGE EMERGENCY RATES					
Proposed Maximum Water Shortage Emergency Rates					
Maximum rates effective on or after:					
	July 1 2015	July 1 2016	July 1 2017	July 1 2018	July 1 2019
WATER SHORTAGE EMERGENCY RATES (CONSUMPTION CHARGES)					
<i>Billed based on monthly metered water use (\$/hcf)*</i>					
<u>Single Family Residential Rate Tiers</u>					
Tier 1	\$5.00	\$5.30	\$5.60	\$5.90	\$6.25
Tier 2	9.90	10.57	11.15	11.72	12.14
Tier 3	11.88	12.71	13.43	14.23	14.83
Tier 4	13.86	14.85	15.72	16.74	17.53
<u>All Other Rate Tiers</u>					
Tier 1	\$9.24	\$9.70	\$10.07	\$10.50	\$10.79
Tier 2	10.56	11.17	11.69	12.33	12.81

* 1 hcf = one hundred cubic feet or approximately 748 gallons.

Based on same levels of water use per tier as shown in Proposed Water Rates table.

Source: Mid-Peninsula Water District

History of Rates in the District. A summary review of the rate increases adopted by the District Board for the past six (6) fiscal years is as follows:

DISTRICT HISTORICAL PERCENTAGE RATE INCREASES

<u>Fiscal Year</u>	<u>Percentage Increase</u>
2010-11	9%
2011-12	9
2012-13	9
2013-14	9
2014-15	9
2015-16	18

Source: Mid-Peninsula Water District

Capacity Charge Update and Connection Fees. On March 26, 2015, the District Board adopted changes to the District's water system capacity charge and added a water demand offset fee for any new residential and non-residential customers to recover a proportionate share of costs for existing and future water system facilities and assets from new or expanded connections to the District's water system to enable the District to continue its operations and services at the same level and quality and continue its critical capital improvement program to replace aged infrastructure and expand the infrastructure, as necessary, to sustain operations and service to the customer base.

Summary tables showing the District's water system capacity charges and water demand offset fees are below.

DISTRICT CAPACITY CHARGES

WATER SYSTEM CAPACITY CHARGES				
RESIDENTIAL				
		<u>Water Demand^{1,2}</u>		<u>Capacity Charge</u>
<i>Charge applies per residential dwelling unit</i>				
Single Family Detached Dwelling Unit		200	gpd	\$9,375
<i>Charge applies to residential dwelling units served by meters up to 1-inch</i>				
Multi-Family Dwelling Unit		120	gpd	\$5,625
<i>Includes: apartments, townhouses, condominiums, and other developments with multiple residential units and separate irrigation meters as designated by the District</i>				
OTHER CONNECTIONS				
<i>Charge applies based on meter size</i>				
<u>Meter Size</u>	<u>Meter Capacity Ratio³</u>	<u>Water Demand⁴</u>		<u>Capacity Charge</u>
Up to 3/4"	1.00	200	gpd	\$9,375
1"	1.67	333	gpd	15,625
1-1/2"	3.33	667	gpd	31,250
2"	5.33	1,067	gpd	50,000
3"	10.00	2,000	gpd	93,750
4"	16.67	3,333	gpd	156,250
6"	33.33	6,667	gpd	312,500
8"	53.33	10,667	gpd	500,000
<p>1 Single family residential demand based on average water use in 2013/14 reduced to account for 10% additional conservation.</p> <p>2 Multi-family demand estimated at 60% of single family detached water demand accounting for minimal to no outdoor irrigation and reduced average occupancy per dwelling unit.</p> <p>3 Based on standard American Water Works Association meter capacities.</p> <p>4 Demand conservatively estimated based on 200 gpd multiplied by meter capacity ratio.</p>				

Source: Mid-Peninsula Water District

DISTRICT DEMAND OFFSET CHARGES

WATER DEMAND OFFSET CHARGES				
	UWMP Water Shortage Response Stages			
	Stage 1	Stage 2	Stage 3	Stage 4
Water Supply Reduction	Up to 11%	12% - 18%	19% - 32%	33% - 50%
Required Water Demand Offset	25%	50%	75%	100%
RESIDENTIAL				
<i>Charge applies per residential dwelling unit</i>				
Single Family Detached Dwelling Unit				
	\$633	\$1,217	\$1,800	\$2,383
<i>Applies to residential dwelling units served by meters up to 1-inch.</i>				
Multi-Family Dwelling Unit				
	\$380	\$730	\$1,080	\$1,430
<i>Includes: apartments, townhouses, condominiums, and other developments with multiple residential units and separate irrigation meters as designated by the District</i>				
OTHER CONNECTIONS				
<i>Charge based on meter size</i>				
<u>Meter Size</u>				
Up to 3/4"	\$633	\$1,217	\$1,800	\$2,383
1"	1,055	2,028	3,000	3,972
1-1/2"	2,110	4,057	6,000	7,943
2"	3,376	6,491	9,600	12,709
3"	6,330	12,170	18,000	23,830
4"	10,550	20,283	30,000	39,717
6"	21,100	40,567	60,000	79,433
8"	33,760	64,907	96,000	127,093

Source: Mid-Peninsula Water District

Sample Bill Calculation for a Typical Single Family Home. Effective July 1, 2015, the monthly bill for a typical single family home with a standard 5/8-inch water meter using 8 hcf of water per month (approximately 200 gallons per day) would be calculated as follows:

SAMPLE BILL

Fixed Monthly Charge	Water Consumption Charges			Total Monthly Bill
<u>5/8" Meter</u>	<u>First 2 hcf x \$5.00</u>	<u>Next 6 hcf x \$7.50</u>	<u>Subtotal</u>	<u>\$22.00 + \$55.00</u>
\$22.00	\$10.00	\$45.00	\$55.00	\$77.00

Source: Mid-Peninsula Water District

Comparative Rates. The following table shows annual single family residential water charges, based on an average 9 ccf monthly water use and meter size (5/8" or 3/4"), within the San Francisco Bay area (as of January 2015):

COMPARATIVE RATES	
Water Supplier	Annual Water Charges
Hillsborough	\$1,371.12
Montara Water Service District	1,198.80
San Bruno	1,051.20
Burlingame	1,015.56
Coastside County Water District (Half Moon Bay)	988.44
Mid-Peninsula Water District	864.60
Brisbane	862.08
Palo Alto	808.20
Millbrae	768.60
North Coast County Water District (Pacifica)	743.76
Redwood City	735.12
East Pal Alto	729.84
Mountain View	634.32
California Water (San Carlos/San Mateo)	610.80
Foster City	500.76
Daly City	410.88

Source: Bartle Wells Associates, District Water Financial Plan & Rate Study dated May 26, 2015.

Water Sales

Billing. The District mails billing statements to its customers on a monthly basis, and reminder bills are mailed out if the bill is not timely paid within 20 days. Shut-off procedures are utilized when a customer becomes delinquent in accordance with the District's ordinances.

Water Use. The table below summarizes metered water consumption by customer source and customer class for Fiscal Years 2011-12 through 2015-16, including per capita use. Unaccounted for or non-revenue water uses included firefighting, District use for line flushing and tank cleaning, water main leaks/breaks, and other system losses.

DISTRICT WATER SOURCES AND USES

	SUPPLY BY SOURCE (ccf)				
	Actual	Actual	Actual	Actual	Actual
	FY 11-12	FY 12-13	FY 13-14	FY 14-15	FY 15-16
San Francisco Water	1,437,360	1,453,047	1,408,109	1,209,300	1,076,654
Local Groundwater	-	-	-	-	-
Surface Water	-	-	-	-	-
Recycled Water	-	-	-	-	-
Other	-	-	-	-	-
Total	1,437,360	1,453,047	1,408,109	1,209,300	1,076,654
mgd equivalent	2.95	2.98	2.89	2.48	2.21

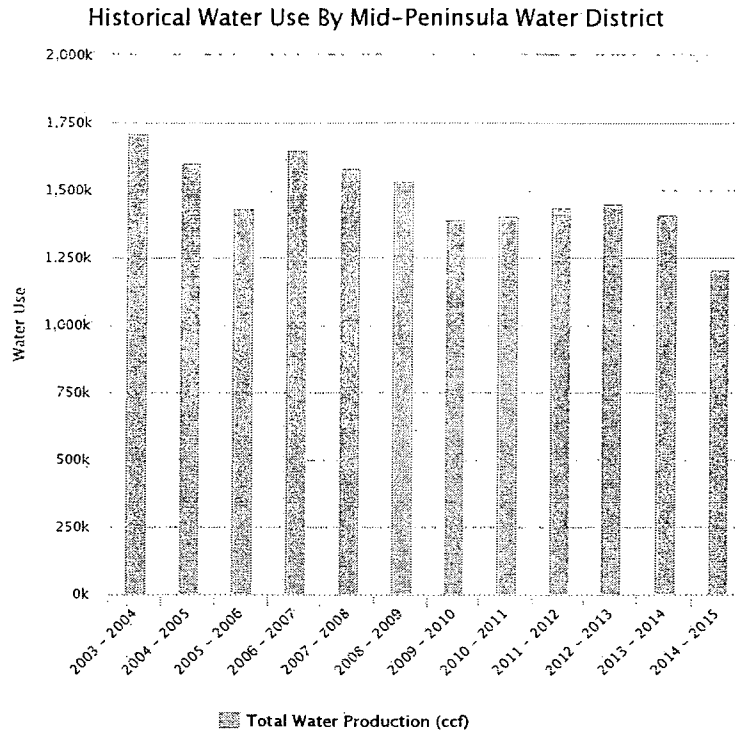
	DEMAND BY SECTOR (ccf)				
	Actual	Actual	Actual	Actual	Actual
	FY 11-12	FY 12-13	FY 13-14	FY 14-15	FY 15-16
Residential	1,016,212	1,004,087	993,343	834,024	732,057
Commercial/Industrial	182,696	259,889	258,172	234,417	219,557
Other	70,228	86,613	83,953	71,882	64,982
Unaccounted for	168,224	102,458	72,641	68,977	60,058
(Non-revenue)	-11.7%	-7.1%	-5.2%	-5.7%	-5.6%
Total	1,437,360	1,453,047	1,408,109	1,209,300	1,076,654
mgd equivalent	2.95	2.98	2.89	2.48	2.21

	PER CAPITA USE (gpcpd)				
	Actual	Actual	Actual	Actual	Actual
	FY 11-12	FY 12-13	FY 13-14	FY 14-15	FY 15-16
Residential	79	78	77	64	57
Gross	112	113	110	93	85

Source: Mid-Peninsula Water District

Per Capita Use. District gross per capita demand in non-drought years is consistent at 112 and 113 gallons per capital per day (gpcpd). It dropped in drought years to 110 gpcpd in FY 2013-14 and lowered to 85 gpcpd in FY 2015-16. The 85 gpcpd obtained in 2015-16 was lower than the 2015 interim target of 126 gpcpd in compliance with the District's SBX7-7 water use target. The District's 2020 target is 121 gpcpd and based upon continued water conservation efforts, the District believes its customers will use less on a per capita basis than the target.

Historical Water Use. The table below shows historical water use by the District from FY 2003-04 through FY 2014-15.



Source: BAWSCA

Drought Management and Contingency Planning

Overview. The District’s 2015 Urban Water Management Plan was adopted on June 23, 2016, together with the District’s Water Shortage Contingency Plan (“WSCP”). The District’s WSCP is the result of a strategic planning process to prepare for and respond to water shortages in order to maintain reliable supplies and reduce the impacts of supply interruption.

The District’s WSCP is applicable to a range of temporary, short- and long-term emergency conditions when the supply volume or system delivery capability is impaired, including but not limited to: a main break or other distribution system failure, a RWS water treatment plant failure, a natural disaster (flood, earthquake, wind damage, etc.), a fire, water quality issue with supply reservoirs or system contamination; and/or drought conditions.

The District engages in an array of water conservation programs including Lawn-Be-Gone, HET (High Energy Toilet), Rain Barrel, and High Efficiency Clothes Washing Machine rebate programs, school conservation programs, and landscape audit programs. The District used public service announcements and messaging, monthly conservation reporting, its newsletters, website updates, a local newspaper advertising campaign, bill stuffers, and participation in community events to provide public information and education about water conservation, and it proved to be successful.

Water Savings in 2015-16. The General Manager reports monthly on water conservation progress within the District. June 1, 2015 was the start of the measurement period for the 2015-16 statewide water conservation goals. The District’s conservation goal was 20% when compared to 2013 water consumption, and the District’s cumulative water savings exceeded that goal. The following table reflects the water savings in 2015-16 relative to 2013 levels:

**DISTRICT WATER SAVINGS IN 2015-16
(RELATIVE TO 2013)**

2015-16 Month	2015-16 Units	2013 Units	Percentage Change from 2013	Cumulative Water Savings	2015-16 R-GPCD	2013 R-GPCD
June, 2015	103,863	150,614	-31.0%	-31.0%	82.3	122.6
July	105,639	156,081	-32.3	-31.7	81.1	122.9
August	106,832	155,788	-31.4	-31.6	82.0	122.7
September	105,459	145,551	-27.5	-30.6	83.6	118.5
October	98,345	122,117	-19.5	-28.3	75.5	96.2
November	77,733	106,535	-27.0	-28.1	61.6	86.7
December	70,423	94,062	-25.1	-27.7	54.0	74.1
January, 2016	69,741	84,202	-17.2	-26.4	53.5	66.3
February	71,345	86,478	-17.5	-25.4	58.5	75.4
March	71,219	106,663	-33.2	-26.2	54.6	84.0
April	82,916	120,265	-31.1	-26.6	65.7	87.9
May	101,955	155,736	-34.5	-27.3	78.2	122.7

Source: Mid-Peninsula Water District

2016 Statewide Water Conservation Regulations. The SWRCB adopted a statewide water conservation approach that replaces the percentage reduction-based standard with a localized “stress test” benchmark. Urban water suppliers were mandated to locally develop conservation standards based upon each agency’s specific circumstances. The new statewide standards required local water agencies to ensure a 3-year supply assuming three more dry years like the ones recently experienced from 2012 to 2015. Water suppliers that would face shortages under three additional dry years would be required to meet a conservation target equal to the amount of the shortage. For example, if a water supplier’s projections include a 10% supply shortfall, its mandatory conservation standard would be 10% (compared with 2013 consumption).

The SFPUC’s *Self-Certification of Supply Reliability for Three Additional Years of Drought and Update to Final Water Supply Availability Estimate* dated June 9, 2016 was submitted to the State before the June 15th deadline. The SFPUC’s 3-year look ahead is good for the RWS supply and a 10% voluntary reduction (compared with 2013 consumption) was requested.

The SFPUC used actual CY2013 and CY2014 demand for each of its wholesale customers, and then averaged the two calendar years for its projected supply for each customer under the SWRCB’s proposed 3-year drought methodology. For the District, the projected supply is 1,038.8 MG (1.4 million units) for each of the water years 2017, 2018, and 2019. For comparison in units, the Districts demand for the past three years was 1.1 million in 2015, 1.3 million in 2014 and 1.5 million in 2013.

The District's self-certification was submitted to the State on June 20, 2016, and reflected the need for a 0% conservation target. However, the District reported it will request a 10% voluntary reduction as was requested by SFPUC for FY 2016-17.

The SWRCB regulations further required continued monthly conservation reporting by urban water suppliers. Prohibitions against certain water uses were also extended.

The new water conservation standards took effect in June 2016 and remain in effect until the end of January 2017.

Recycled Water. The District does not have a recycled water supply or the funding and infrastructure to deliver it. The District does not engage in wastewater collection, treatment, or disposal. The Silicon Valley Clean Water facility where District service area's wastewater is treated is limited to supplying recycled water for use in Redwood City.

Capital Improvement Program

The District's current capital improvement program was approved by the District Board on May 26, 2016. The District's capital improvement program includes a total of 93 capital projects totaling approximately \$52 million (in 2015 dollars) that fall into several work categories including:

- Abandoning cross country water mains,
- Eliminating parallel water mains,
- Eliminating dead ends by creating loops,
- Eliminating lengthy water mains serving only one or two connections,
- Eliminating all 4-inch water mains (undersized),
- Replacing aging pipes prone to leaks or expected to leak,
- Increasing fire flows by adding fire hydrants,
- Tank structural analyses,
- Adding system redundancy,
- Increasing water main size where capacity is needed.

In addition to the project to be financed with the proceeds of the Certificates, the District's capital improvement program includes the following which projects will either be included in the next capital improvement plan or constructed with pay-go funds when available and approved by the Board:

Complete AMI Installation - \$2 million. The District meters all of its customers and it is in the process of completing AMI (Automated Metering Infrastructure) installations. Currently, the District has approximately 4,000 AMI meters (approximately 50%) in place. This project would replace the remaining 50% of the manual read meters with AMI meters.

SCADA System Replacement/Rehabilitation - \$1.5 million. The District's SCADA (Supervisory Control and Data Acquisition) system is aged (20+ years old) and subject to failure making it dysfunctional at times. The master station is at the District Dairy Lane Operations Center, and remote sites are comprised of 11 steel tanks, 8 pump stations, 13 pressure regulator, 1 line flow meter, and 6 intertie valve stations. Operations personnel rely on the SCADA system for proactive response to potential problems

within the District's water distribution system. The telemetry system has been updated in places but due to technology improvements and enhanced hardware reliability, the District contracted with a professional engineering consultant in 2015 and working with staff designed a SCADA Master Plan so that the District system could functionally be replaced. That plan is dated September 11, 2015, and was prepared by John Nourse, Registered Electrical Engineer. For security reasons, the District does not publicly make this document available.

Dairy Lane Operations Center Rehabilitation/Upgrade - \$1.5 million. The Dairy Lane premises were purchased in 1997 and modified to meet the District's needs at that time, including a shop area and small office area. Most of the improvements were accomplished in-house by staff. The original HVAC system has exceeded its useful life and is not zoned properly in the office area, leaks in the roof have been repaired over the years but it, too, is in need of replacement, the office area needs to be redesigned for functionality, ergonomics, and improved use of the space, the carpet and flooring is original and needs to be replaced, and restrooms are deficient. A seismic evaluation of the facility and premises will be conducted within the next 90 days. The District is working with an engineer and architect, interior designer, and other consultants to develop a rehabilitation plan and design concepts, cost estimate, and phased construction plan.

DISTRICT FINANCIAL MATTERS

Budgetary and Financial Matters

The District operates on a July 1st to June 30th fiscal year. Each fiscal year, two (2) budgets are developed, an Operating Budget and a Capital Budget.

The District Board begins the budget development process in February or March of each year for a June adoption. The budget documents are discussed during regular District Board meetings each month from February through June.

The Operating Budget includes the revenues and expenditures for the day-to-day operations of the District. The Capital Budget includes the capital infrastructure and system projects and outlays. The District has been operating on a "pay as you go" basis for its capital improvements.

A mid-year budget review is typically scheduled each year. This process allows for an updated report on the previous 6-month operational and capital activities, and revenue collections and expenditures. Any proposed budgetary adjustments for the remainder of the fiscal year are also considered at this time.

Revenues, Expenses and Debt Service Coverage

The following table has been derived by the District on the basis of its audited financial statements for FY2012-13 through FY2015-16 and the operating budget for FY2016-17. A copy of the most recent audited financial statements of the District for Fiscal Year ended June 30, 2016, is included as Appendix B hereto. The following summary is qualified in its entirety by reference to the audited financial statements for such years, including the notes thereto. The District's Auditor has not reviewed the information set forth in the following table.

REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Fiscal Year				
	2012-13 Audited	2013-14 Audited	2014-15 Audited	2015-16 Audited	2016-17 Budget
OPERATING REVENUES					
Water service charges	9,023,562	9,748,347	9,269,172	10,103,976	11,013,120
Other revenue	379,852	66,004	70,931	26,107	10,000
Total Operating Revenues	9,403,414	9,814,351	9,340,103	10,130,083	11,023,120
OPERATING EXPENSES					
Salaries and benefits	1,896,336	2,214,994	2,258,983	2,293,425	2,832,300
Maintenance and rehabilitation	399,927	460,720	529,883	528,314	572,250
Purchased water	4,344,176	4,102,227	4,160,810	4,491,156	4,976,000
Utilities	336,603	303,834	312,784	267,479	288,300
Professional services	554,249	386,496	461,682	539,376	501,950
Administrative and other	617,416	687,694	665,813	647,516	715,150
Depreciation	785,945	837,048	912,979	910,361	950,000
Total Operating Expenses	8,934,652	8,993,013	9,302,934	9,677,627	10,835,950
Operating Income/(Loss)	468,762	821,338	37,169	452,456	187,170
NON-OPERATING REVENUES					
Rent	171,808	209,518	194,681	170,763	200,000
Property taxes	234,629	242,407	259,597	266,341	255,000
Insurance claim reimbursement	—	4,726	—	—	—
Interest income	8,566	11,662	9,751	14,847	10,000
Completed projects	64,008	122,203	118,202	—	—
Total Non-Operating Revenues	479,001	590,516	582,231	451,951	465,000
CHANGE IN NET POSITION	947,773	1,411,854	619,400	904,407	
NET POSITION, Beginning of Year	17,797,870	18,745,643	18,624,896 ⁽¹⁾	19,244,296	
NET POSITION, End of Year	18,745,643	20,157,497	19,244,296	20,148,703	

Source: Mid-Peninsula Water District Audited Financial Statements for FY2013-2016 and the Mid-Peninsula Water District.

(1) Reflects a prior period adjustment of \$(1,532,601) relating to implementation of GASB 68.

Projected Operating Results of the District

Estimated projected operating results and debt service coverage for the District for the current and next eight Fiscal Years are set forth below. Certain assumptions have been made by the District in the development of the projections. Many of these assumptions are reflected in the projections. While the District believes its assumptions are reasonable, there can be no assurance that the assumed conditions will in fact occur. The District's projections may be affected (favorably or unfavorably) by unforeseen future events. Therefore, the results projected below cannot be assured.

PROJECTED REVENUES, EXPENDITURES AND DEBT SERVICE COVERAGE FISCAL YEARS 2016-17 TO 2020-21

	Fiscal Year Ending June 30,				
	2016-17	2017-18	2018-19	2019-20	2020-21
REVENUES					
Water Sales (1)	8,074,000	8,608,000	8,850,000	9,484,000	9,549,000
Monthly Service Charges (1)	2,684,000	2,908,000	3,132,000	3,356,000	3,625,000
Interest Earnings	15,000	23,000	31,000	32,000	32,000
Lease Revenue (2)	155,000	160,000	165,000	170,000	175,000
Property Tax Revenue	252,000	260,000	268,000	276,000	284,000
Capacity Charges	287,000	195,000	20,000	20,000	21,000
Miscellaneous Revenues	50,000	52,000	54,000	56,000	58,000
Total Revenues	11,517,000	12,206,000	12,520,000	13,394,000	13,744,000
EXPENSES					
Water Purchase	5,155,000	5,390,000	5,818,000	6,524,000	6,600,000
Personnel Costs	2,800,000	2,912,000	3,028,000	3,149,000	3,275,000
Maintenance and Repair	500,000	520,000	541,000	563,000	586,000
Utilities	300,000	312,000	324,000	337,000	350,000
Professional Services	500,000	520,000	541,000	563,000	586,000
Water Conservation Program/Rebates	130,000	130,000	130,000	130,000	130,000
Other Operating Costs (3)	625,000	650,000	676,000	703,000	731,000
Total Expenses	10,010,000	10,434,000	11,058,000	11,969,000	12,258,000
Net Revenues Available for Debt Service	1,507,000	1,772,000	1,462,000	1,425,000	1,486,000
Debt Service (4)	1,045,000	1,045,000	1,045,000	1,045,000	1,045,000
Debt Service Coverage (4)	1.44x	1.70x	1.40x	1.36x	1.42x
Revenues Remaining After Debt Service	462,000	727,000	417,000	380,000	441,000

Source: Mid-Peninsula Water District

- (1) Revenues assume a 6% rate increases in each year 2016-17 through 2019-20 and an 8% increase in 2020-21.
- (2) Includes lease revenues from cellular towers/equipment.
- (3) Includes Administrative and equipment expenditures, including office supplies, liability and property insurance, postage, printing, equipment service/maintenance, computer supplies, security and safety, customer credit card service fees, government fees, licenses, membership dues and publications, BAWSCA membership assessments, software licenses, and cross connection inspection fees.
- (4) Preliminary, subject to change.

Outstanding Water System Obligations

The District has no outstanding loans, obligations, or long-term debt payable from Net Revenues.

Investments

District cash reserves as of August 31, 2016, are invested with the State LAIF (Local Agency Investment Fund) and identified per its Reserve Policy as follows:

MPWD RESERVE FUNDS				
Reserve Account	Balance @ 08/31/2014	Balance @ 08/31/2015	Balance @ 08/31/2016	Budget for Reserve Policy
Capital Reserves	\$ 1,779,466	\$ 889,457	\$ 1,555,161	\$ 2,500,000
Emergency Reserves	\$ 2,000,000	\$ 2,000,000	\$ 2,000,000	\$ 2,000,000
Working Capital Reserves	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000
TOTAL RESERVE FUNDS	\$ 4,279,466	\$ 3,389,457	\$ 4,055,161	\$ 5,000,000

Source: Mid-Peninsula Water District

The District adopted a Reserve Policy on December 13, 2007 to cover its' investment and reserve activities.

Risk Management

The District is a member of ACWA JPIA (Association of California Water Agencies Joint Power Insurance Authority) and belongs to its pooled insurance group together with other California public water agencies for property, liability, worker's compensation, and healthcare benefits. Policy limits are \$60 million.

Employees' Retirement Plan

Plan Description. All qualified permanent and probationary employees are eligible to participate in the District's Retirement Plan (the "Plan"), agent multiple-employer defined benefit pension plan administered by the California Public Employees' Retirement System ("CalPERS"), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plan are established by State statute and Local Government resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided. CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

On January 1, 2013, the Public Employee Pension Reform Act ("PEPRA") went into effect. This State law applies to employees hired after January 1, 2013 who are new to CalPERS. These employees are termed PEPRA members and employees that were enrolled in CalPERS (without significant separation)

prior to January 1, 2013 are now referred to as classic members. PEPRAs miscellaneous members will be enrolled in a 2% at 62 plan. PEPRAs members will be required to pay half the normal cost of their plans.

Contributions. Section 20814(C) of the California Public Employees' Retirement Law ("PERL") requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan is determined annually on an actuarial basis as of June 30th by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ended June 30, 2015 (the measurement date), the average active employee contribution rate is 7.958% of annual pay for the Plan, and employer contribution rate is 23.324% of annual payroll for the Plan.

Net Pension Liability. As of June 30, 2015, the District reported net pension liabilities for its proportionate share of the net pension liability of the Plan of \$1,113,540.

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2014, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for the Plan as of June 30, 2015 is 0.04059%.

Deferred Outflows and Deferred Inflows of Resources Related to Pensions. For the year ended June 30, 2016, the District recognized pension expense of \$148,610. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

	Deferred Outflows of Resources	Deferred inflows of Resources
Contributions subsequent to measurement date	210,583	-
Difference between project and actual experience	13,760	-
Difference in actual vs. projected contributions	111,047	-
Change in proportion	106,886	-
Changes in assumptions	-	(130,185)
Differences between projected and actual earnings on Plan investments	-	(62,263)
Total	442,276	(195,448)

Source: Mid-Peninsula Water District 2015-16 Audited Financial Statements

\$210,583 reported as deferred outflows of resources related contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

RECOGNITION SCHEDULE

Measurement Periods Ended June 30,	Deferred Outflows/(Inflows) of Resources
2016	11,967
2017	7,482
2018	(15,902)
2019	32,698

Source: Mid-Peninsula Water District 2015-16 Audited Financial Statements

See “Note 4 - Employee Retirement Plan” in APPENDIX B—“AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2015” for additional information about the Plan.

Recent Actions by PERS. On March 14, 2012, the PERS Board of Administration voted to reduce its discount rate, which is attributable to its expected price inflation and investment rate of return (net of administrative expenses), from 7.75% to 7.5%. As a result of such discount rate decrease, among other things, (i) the amounts of PERS member employer contributions will increase by 1.2 to 1.6% for Miscellaneous plans and 2.2 to 2.4% for Safety plans beginning fiscal year 2012-13 and (ii) the amounts of PERS member public agency contributions will increase by one to 2% for Miscellaneous plans and two to 3% for Safety plans beginning fiscal year 2013-14.

The PERS Board adjustment has been undertaken in order to address underfunding of the PERS funds, which arose from significant losses incurred as a result of the economic crisis arising in 2008 and persists due to a slower than anticipated, subsequent economic recovery. The District is unable to predict what the amount of PERS liabilities will be in the future, or the amount of the PERS contributions which the District may be required to make.

At its April 17, 2013 meeting, the PERS Board of Administration approved a recommendation to change the PERS amortization and smoothing policies. Prior to this change, PERS employed an amortization and smoothing policy which spread investment returns over a 15-year period with experience gains and losses paid for over a rolling 30-year period. After this change, PERS will employ an amortization and smoothing policy that will pay for all gains and losses over a fixed 30-year period with the increases or decreases in the rate spread directly over a 5-year period.

The new amortization and smoothing policy were used for the first time in the June 30, 2013 actuarial valuations. These valuations were performed in the fall of 2014 and set employer contribution rates for the fiscal year 2015-16.

On February 20, 2014, the PERS Board of Administration adopted new mortality and retirement assumptions as part of a regular review of demographic experience. Key assumption changes included longer post-retirement life expectancy and earlier retirement ages. The impact of the assumption changes will be phased in over five years, with a twenty-year amortization, beginning in the 2016-17 Fiscal Year.

According to PERS, the current amortization and smoothing policy was designed to reduce volatility in employer contribution rates, and, although the policy accomplished this goal fairly well since its adoption, a number of concerns have developed:

- The use of an actuarial value of assets corridor can lead to significant single year increases to rates in years when there are large investment losses.
- The use of long asset smoothing periods and long rolling amortization periods result in slow progress toward full funding.
- The use of an actuarial value of assets requires the disclosure of two different funded statuses and unfunded liability numbers in actuarial valuation reports. This adds confusion and inhibits transparency.
- The use of rolling amortization and long asset smoothing periods makes it difficult for employers to predict when contribution rates will peak and how high that peak will be.
- The use of rolling amortization and asset smoothing periods may result in additional calculations for the new accounting standards. These calculations would be avoided with a quicker funded status recovery.

According to PERS, the adoption of the new smoothing and amortization policies will change future employer contribution rates, as follows:

- Funding levels will improve, which will reduce the funding level risk.
- Local agencies' plans will experience more rate volatility in normal years, but a much reduced chance of very large rate increases in years when there are large investment losses.
- Contribution rates in the near term will increase.
- Long-term contribution rates will be lower.
- There will be greater transparency about the timing and impact of future employer contribution rate changes.
- The new policy eliminates the need for an actuarial value of assets. As a result, there will be only one funded status and unfunded liability in actuarial reports.
- There will be less confusion when the new accounting standards are implemented since there will be no need for extra liability calculations.

GASB Statement Nos. 67 and 68. On June 25, 2012, the Governmental Accounting Standards Board ("GASB") approved two new standards ("Statements") with respect to pension accounting and financial reporting standards for state and local governments and pension plans. The new Statements, No. 67 and No. 68, will replace GASB Statement No. 27 and most of Statements No. 25 and No. 50. The changes will impact the accounting treatment of pension plans in which state and local governments participate. Major changes include: 1) the inclusion of unfunded pension liabilities on the government's balance sheet (currently, such unfunded liabilities are typically included as notes to the government's financial statements); 2) more components of full pension costs being shown as expenses regardless of actual contribution levels; 3) lower actuarial discount rates being required to be used for underfunded plans in certain cases for purposes of the financial statements; 4) closed amortization periods for unfunded liabilities being required to be used for certain purposes of the financial statements; and 5) the difference between expected and actual investment returns being recognized over a closed five-year smoothing period. In addition, according to GASB, Statement No. 68 means that, for pensions within the scope of the Statement, a cost-sharing employer that does not have a special funding situation is required to

recognize a net pension liability, deferred outflows of resources, deferred inflows of resources related to pensions and pension expense based on its proportionate share of the net pension liability for benefits provided through the pension plan. Because the accounting standards do not require changes in funding policies, the full extent of the effect of the new standards on the District is not known at this time.

The reporting requirements under GASB No. 68 for pension plans took effect for the fiscal year beginning July 1, 2013 and the reporting requirements for government employers, including the District, took effect for the fiscal year beginning July 1, 2014. The District's net pension liability at June 30, 2016 calculated pursuant to GASB No. 68 was estimated to be \$69,753,895.

Pension Reform Act of 2013 (Assembly Bill 340). On September 12, 2012, Governor Brown signed AB 340, a bill that enacted the California Public Employees' Pension Reform Act of 2013 ("PEPRA") and that also amended various sections of the State Education and Government Codes. PEPRA (i) increases the retirement age for new State, school, and city and local agency employees depending on job function, (ii) caps the annual PERS pension benefit payouts, (iii) addresses numerous abuses of the system, and (iv) requires State, school, and certain city and local agency employees to pay at least half of the costs of their PERS pension benefits. PEPRA applies to all public employers except the University of California, charter cities and charter counties (except to the extent they contract with PERS.)

The provisions of PEPRA went into effect on January 1, 2013 with respect to new State, school, and city and local agency employees hired on that date and after; existing employees who are members of employee associations, including employee associations of the District, will have a five-year window to negotiate compliance with PEPRA through collective bargaining. If agreement is not reached by January 1, 2018, a city, public agency or school district could force employees to pay their half of the costs of PERS pension benefits, up to 8% of pay for civil workers and 11% or 12% for public safety workers.

PERS has predicted that the impact of PEPRA on employers, including the District and other employers in the PERS system, and employees will vary, based on each employer's current level of benefits. To the extent that the new formulas lower retirement benefits, employer contribution rates could decrease over time as current employees retire and employees subject to the new formulas make up a larger percentage of the workforce. This change would, in some circumstances, result in a lower retirement benefit for employees than they currently earn. Additionally, PERS has noted that changes arising from PEPRA could ultimately have an adverse impact on public sector recruitment in areas that have historically experienced recruitment challenges due to higher pay for similar jobs in the private sector.

More information about PEPRA can be accessed through the PERS's web site at <https://www.calpers.ca.gov/page/about/laws-regulations/regulatory-actions/pepra>. That website is not incorporated herein by reference.

The District is unable to predict what the amount of State pension liabilities will be in the future, or the amount of the contributions which the District may be required to make.

Other Post-Employment Benefits

Plan Description. The District provides postemployment health care benefits for all employees who terminate or retire from the District after achieving age 55 with at least 20 years of service. For employees hired before June 28, 2008, District-paid benefits are available to eligible beneficiaries. The

General Manager position qualifies for postemployment healthcare benefits after 7 1/2 years of service with the District per the employment agreement.

Funding Policy. The District has an agreement with the Public Agency Retirement Services (PARS) to be the Trust Administrator to the PARS Public Agencies Post-Retirement Health Care Pan Trust. The amount to be contributed to the trust is determined annually by the District Board.

Annual OPEB Cost and Net OPEB Asset. The District’s annual other postemployment benefit (OPEB) expense is calculated based on the annual required contributions (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the components of the District’s Annual OPEB Cost for the fiscal year ended June 30, 2016, the amount actually contributed to the plan, and changes in the District’s Net OPEB Obligation:

CHANGE IN OPEB OBLIGATION

Actuarially determined contribution	259,428
Interest on net OPEB asset	251
Adjustment to annual required contribution	(314)
Annual OPEB cost	259,365
Contributions made	(221,461)
Increase in net OPEB obligation	37,904
Net OPEB asset – beginning of year	4,565
Net OPEB asset – end of year	42,469

Source: Mid-Peninsula Water District 2015-16 Audited Financial Statements

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for the current fiscal year and each of the two preceding years are as follows:

HISTORICAL OPEB OBLIGATIONS

Fiscal Year	Annual OPEB Cost (AOC) (Employer Contribution)	Actual Contribution	% of AOC Contributed	Net OPEB Obligation/(Asset)
2015-16	259,365	221,461	85%	42,469
2014-15	155,528	131,620	85	4,565
2013-14	151,033	147,344	98	(19,343)

Source: Mid-Peninsula Water District 2015-16 Audited Financial Statements

Funded Status and Funding Progress. 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 District are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

See “Note 6 – Other Post-employment Benefits” in APPENDIX B—“AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2015” for additional about the post-employment health care benefits provided to the employees of the District.

CERTIFICATE OWNERS’ RISKS

The following section describes certain special considerations and risk factors affecting the risk of nonpayment or the security for the Certificates. The following discussion is not meant to be an exhaustive or definitive description of the risks associated with a purchase of any Certificate and does not necessarily reflect the relative importance of the various risks. Potential investors are advised to consider the following special factors regarding the Certificates, together with all other information in this Official Statement in order to make an informed investment decision with respect to the Certificates. There can be no assurance that other risk factors are not or will not become material in the future.

Certain Factors Affecting the District Generally

The District’s ability to make Installment payments is dependent upon the collection of water service charges. Those charges are collected with relatively consistent and predictable demands. A number of factors could adversely affect the District’s water service charge structure including, but not limited to, capital improvement needs, federal and state requirements and general economic conditions. The District has been able to adjust its rates from time to time to meet such conditions and expects to continue to have that ability.

Certificates Are Limited Obligations

The Certificates are special, limited obligations of the Corporation, payable from Revenues derived from Installment Payments. The Certificates shall not be deemed to constitute a debt or liability of the District, the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory provision, or a pledge of the faith and credit of the District, the State of California or of any political subdivision thereof, but shall be payable, except to the extent of certain available moneys pledged therefor, solely from Net Revenues. Neither the faith and credit nor the taxing power of the District, the State of California or of any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or the interest on the Certificates. The issuance of the Certificates shall not directly or indirectly or contingently obligate the District, the State of California or any political subdivision thereof to levy or to pledge any form of taxation whatsoever therefor or to make any appropriation for their payment.

Limitations on Remedies

The enforceability of the rights and remedies of the owners of the Certificates and the Trustee, and the obligations incurred by the District, may be subject to the following: the limitations on legal remedies against cities in California; 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; principles of equity 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 U.S. Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of

the police power inherent in the sovereignty of the State of California and its governmental bodies in the interest of serving a significant and legitimate public purpose. Bankruptcy proceedings, or the exercise of powers by the federal or State government, if initiated, could subject the owners of the Certificates to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitations or modification of their rights. Remedies may be limited since the Water System serves an essential public purpose.

Water System Demand and Growth

There can be no assurance that the local demand for the services provided by the Water System will be maintained at levels described in this Official Statement under the headings "DISTRICT WATER 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 Installment Sale Agreement. There can be no assurance that any other entity with regulatory authority over the Water System will not adopt further restrictions on operation of the Water System.

Water System Expenses

There can be no assurance that the District's expenses for the Water 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 service charges in order to comply with the rate covenant. Such rate increases could increase the likelihood of nonpayment, and could also decrease demand.

Environmental Laws and Regulations

The Water 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 control requirements. Such regulations, as they may be from time to time amended or subsequently enacted could affect the Net Revenues available to pay the Certificates.

Limited Recourse on Default

If the District defaults on its obligation to make Installment payments, the Trustee has the right to accelerate the total unpaid principal amount of the Certificates. 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 payments.

Limitations on Rate Setting Under the California Constitution

On November 5, 2005, the voters of the State approved Proposition 218, a constitutional initiative, entitled the "Right to Vote on Taxes Act" ("Proposition 218"). Proposition 218 added Articles XIII C and XIII D to the California Constitution and contained a number of interrelated provisions affecting the ability of local governments, including the District, to levy and collect both existing and future taxes, assessments, fees and charges.

Section 3 of Article XIII C expressly extends the initiative power to give voters the power to reduce or repeal local taxes, assessments, fees and charges, regardless of the date such taxes, assessments,

fees or charges were imposed. Section 3 expands the initiative power to include reducing or repealing assessments, fees and charges, which had previously been considered administrative rather than legislative matters and therefore beyond the initiative power. This extension of the initiative power is not limited by the terms of Article XIII C to fees imposed after November 6, 2005, the effective date of Proposition 218, and absent other legal authority could result in the reduction in any existing taxes, assessments or fees and charges imposed prior to November 6, 2005.

“Fees” and “charges” are not expressly defined in Article XIII C or in SB 919, the Proposition 218 Omnibus Implementation Act enacted in 1997 to prescribe specific procedures and parameters for local jurisdictions in complying with Article XIII C and Article XIII D (“SB 919”). However, on July 24, 2006, the California Supreme Court ruled in *Bighorn-Desert View Water Agency v. Virjil (Kelley)* (the “*Bighorn Decision*”) that charges for ongoing water delivery are property-related fees and charges within the meaning of Article XIII D and are also fees or charges within the meaning of Section 3 of Article XIII C. The California Supreme Court held that such water service charges may, therefore, be reduced or repealed through a local voter initiative pursuant to Section 3 of Article XIII C.

In the *Bighorn Decision*, the Supreme Court did state that nothing in Section 3 of Article XIII C authorizes initiative measures that impose voter-approval requirements for future increases in fees or charges for water delivery. The Supreme Court stated that water providers may determine rates and charges upon proper action of the governing body and that the governing body may increase a charge which was not affected by a prior initiative or impose an entirely new charge.

The Supreme Court further stated in the *Bighorn Decision* that it was not holding that the initiative power is free of all limitations and was not determining whether the initiative power is subject to the statutory provision requiring that water service charges be set at a level that will pay debt service on bonded debt and operating expenses. Such initiative power could be subject to the limitations imposed on the impairment of contracts under the contract clause of the United States Constitution. Additionally, SB 919 provides that the initiative power provided for in Proposition 218 “shall not be construed to mean that any owner or beneficial owner of a municipal security, purchased before or after [the effective date of Proposition 218] assumes the risk of, or in any way consents to, any action by initiative measure that constitutes an impairment of contractual rights” protected by the United States Constitution. No assurance can be given that the voters of the District will not, in the future, approve initiatives which repeal, reduce or prohibit the future imposition or increase of assessments, fees or charges which are the source of Net Revenues pledged to the payment of debt service with respect to the Certificates or any additional Parity Obligations.

Notwithstanding the fact that service charges may be subject to reduction or repeal by voter initiative undertaken pursuant to Section 3 of Article XIII C, the District has covenanted to levy and charge rates which meet the requirements of the Indenture in accordance with applicable law.

Article XIII D defines a “fee” or “charge” as any levy other than an *ad valorem* tax, special tax, or assessment imposed upon a parcel or upon a person as an incident of property ownership, including a user fee or charge for a property-related service. A “property-related service” is defined as “a public service having a direct relationship to a property ownership.” In the *Bighorn Decision*, the California Supreme Court held that a public water agency’s charges for ongoing water delivery are fees and charges within the meaning of Article XIII D. Article XIII D requires that any agency imposing or increasing any property-related fee or charge must provide written notice thereof to the record owner of each identified parcel upon which such fee or charge is to be imposed and must conduct a public hearing with respect thereto.

The proposed fee or charge may not be imposed or increased if a majority of owners of the identified parcels file written protests against it. As a result, the local government's ability to increase such fee or charge may be limited by a majority protest.

The District's service charge is a commodity charge based on the volume of water consumed. The District has ratified prior rate measures and otherwise complied with the applicable notice and protest procedures of Article XIID for its current rates and charges. There has not been nor is there any pending challenge to any of the District's fees and charges approved since the effective date of Proposition 218. While the District's counsel is of the opinion, based upon the judicial precedent in place during the period of these rate increases, that a reviewing court could reasonably uphold the validity of those increases, neither the District nor the District's counsel can predict with certainty the outcome of a challenge to the increases in the District's rates and charges that were not approved in accordance with the notice and hearing requirements of Article XIID if one were brought.

In addition, Article XIID also includes a number of limitations applicable to fees and charges including provisions to the effect that (i) revenues derived from the fee or charge shall not exceed the funds required to provide the property-related service; (ii) such revenues shall not be used for any purpose other than that for which the fee or charge was imposed; (iii) the amount of a fee or charge imposed upon any parcel or person as an incident of property ownership shall not exceed the proportional cost of the service attributable to the parcel; and (iv) no such fee or charge may be imposed for a service unless that service is actually used by, or immediately available to, the owner of the property in question. Property-related fees or charges based on potential or future use of a service are not permitted.

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

Article XIID establishes procedural requirements for the imposition of assessments, which are defined as any charge upon real property for a special benefit conferred upon the real property. Standby charges are classified as assessments. Procedural requirements for assessments under Article XIID include conducting a public hearing and mailed protest procedure, with notice to the record owner of each parcel subject to the assessment. The assessment may not be imposed if a majority of the ballots returned

oppose the assessment, with each ballot weighted according to the proportional financial obligation of the affected parcel.

Existing, new or increased assessments are subject to the procedural provisions of Proposition 218. However, certain assessments existing on November 6, 2005, are classified as exempt from the procedures and approval process of Article XIII D. Expressly exempt assessments include (i) an assessment imposed exclusively to finance capital costs or Operation and Maintenance expenses for sewers, water, flood control and drainage systems, but subsequent increases are subject to the procedures and approval requirements; (ii) an assessment imposed pursuant to a petition signed by all affected landowners (but subsequent increases are subject to the procedural and approval requirements); (iii) assessments, the proceeds of which are used exclusively to pay bonded indebtedness, where failure to pay would violate the U.S. Constitution's prohibition against the impairment of contracts; and (iv) any assessment which has previously received approval by a majority vote of the voters (but subsequent increases are subject to the procedural and approval requirements).

On July 14, 2008, the California Supreme Court ruled in *Silicon Valley Taxpayers Association, Inc. v. Santa Clara County Open Space City* (the "SCCOSA Decision") that the Santa Clara County Open Space City's county-wide assessment which was designed to fund the acquisition and maintenance of unspecified open-space lands in the County was invalid under Proposition 218. The Court held that deference should not be accorded to local agencies when Proposition 218 legislative acts are challenged. Under Proposition 218, courts must make an independent review of whether the assessment and formation of an assessment district meet the "special benefit" and proportionality requirements of Article XIII D. Further, while an assessment will not be invalidated because it confers a benefit upon the public at large, the "special benefit" must affect the assessed property in a distinct and particular manner not shared by other parcels and the public at large. Specifically, in the SCCOSA Decision the assessment did not meet the requirements of a "special benefit" and the assessment was not proportional to the special benefits conferred. Finally, the Court held that the Santa Clara Open Space City did not meet the proportionality requirement of Article XIII D because it did not specifically identify the improvements to be financed by the assessment and failed to sufficiently connect any costs of and benefits received from the open space assessment to the specific assessed parcels.

The District and the District's counsel are of the opinion that current fees and charges that are subject to Proposition 218 comply with the provisions thereof. The District and the District's counsel are also of the opinion that current capacity fees are not subject to Proposition 218. Should it become necessary to increase the fees and charges above current levels, the District would be required to comply with the requirements of Article XIII D in connection with such proposed increase. To date, there have been no legal challenges to rate increases implemented by the District pursuant to Proposition 218 or otherwise. It is unclear whether under existing standards, rates and charges may be established at levels which would permit deposits to a Rate Stabilization Fund or maintenance of uncommitted cash reserves.

The interpretation and application of Proposition 218 will ultimately be determined by the courts or through implementing legislation with respect to a number of the matters described above, and it is not possible at this time to predict with certainty the outcome of such determination or the nature or scope of any such legislation.

Limitations on Remedies Available

The ability of the District to comply with its covenants under the Installment Sale Agreement and to generate Net Revenues sufficient to pay principal of and interest on the Certificates may be adversely affected by actions and events outside of the control of the District, and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or payers of assessments, fees and charges. See "Proposition 218" below. Furthermore, any remedies available to the owners of the Certificates upon the occurrence of an event of default under the Indenture are in many respects dependent upon judicial actions, which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

In addition to the limitations on Owner remedies contained in the Indenture, the rights and obligations under the Certificates and the Indenture may be subject to the following: the United States Bankruptcy Code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; usual equity principles which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Federal Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State of California and its governmental bodies in the interest of serving a significant and legitimate public purpose. Bankruptcy proceedings, or the exercise of powers by the federal or state government, if initiated, could subject the Owners 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.

Future Initiatives

Articles XIII C and XIII D were adopted as measures that qualified for the ballot pursuant to California's initiative process. From time to time other initiatives could be proposed and adopted affecting Net Revenues or the District's ability to increase its rates for water service.

Loss of Tax-Exemption

As discussed under the caption "TAX MATTERS," interest with respect to the Certificates could become includable in gross income for purposes of federal income taxation retroactive to the date of execution and delivery of Certificates as a result of future acts or omissions of the District in violation of certain covenants contained in the Indenture. Should such an event of taxability occur, the Certificates are not subject to special redemption or any increase in interest rate and will remain outstanding until maturity or until redeemed pursuant to the Indenture.

Secondary Market

There can be no guarantee that there will be a secondary market for the Certificates or, if a secondary market exists, that any Certificates 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.

THE CORPORATION

The Corporation is a nonprofit, public benefit corporation duly organized and existing under the laws of the State of California and is entitled to purchase personal and real property and to sell or lease such property, to contract for construction and improvements and to execute operating agreements regarding such property. The Corporation was formed for the purpose of providing financial assistance to public entities by acquiring, constructing, developing and refinancing certain facilities for the use and benefit of the public. The Corporation has no liability to the Owners of the Certificates.

CONTINUING DISCLOSURE

The District has covenanted for the benefit of owners and beneficial owners of the Certificates to provide certain financial information and operating data relating to the Water System by not later than nine months following the end of the District's fiscal year (currently ending June 30) (the "Annual Report"), commencing with the report for the fiscal year ended June 30, 2016, and to provide notices of the occurrence of certain enumerated events. The Annual Report and the notices of enumerated events will be filed by the District with the Municipal Securities Rulemaking Board through the Electronic Municipal Access (EMMA) System. The specific nature of the information to be contained in the Annual Report or the notices of enumerated events is summarized below under the caption APPENDIX C—PROPOSED FORM OF CONTINUING DISCLOSURE CERTIFICATE. These covenants have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5) (the "Rule"). The District has no prior obligations to provide continuing disclosure information under the Rule.

TAX MATTERS

Federal tax law contains a number of requirements and restrictions which apply to the Certificates, including investment restrictions, periodic payments of arbitrage profits to the United States, requirements regarding the proper use of bond proceeds and the facilities financed therewith, and certain other matters. The District has covenanted to comply with all requirements that must be satisfied in order for the interest with respect to the Certificates to be excludable from gross income for federal income tax purposes. Failure to comply with certain of such covenants could cause interest with respect to the Certificates to become includable in gross income for federal income tax purposes retroactively to the date of delivery of the Certificates.

Subject to the District's compliance with the above referenced covenants, under present law, in the opinion of Quint & Thimmig LLP, Special Counsel, interest with respect to the Certificates is excludable from the gross income of the owners thereof for federal income tax purposes, and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations, but interest with respect to the Certificates is taken into account, however, in computing an adjustment used in determining the federal alternative minimum tax for certain corporations.

In rendering its opinion, Special Counsel will rely upon certifications of the District with respect to certain material facts within its knowledge. Special Counsel's opinion represents its legal judgment based upon its review of the law and the facts that it deems relevant to render such opinion and is not a guarantee of a result.

The Internal Revenue Code of 1986, as amended (the "Code"), includes provisions for an alternative minimum tax ("AMT") for corporations in addition to the corporate regular tax in certain cases. The AMT for a corporation, if any, depends upon the corporation's alternative minimum taxable income ("AMTI"), which is the corporations' taxable income with certain adjustments. One of the adjustment items used in computing the AMTI of a corporation (with certain exceptions) is an amount equal to 75% of the excess of such corporation's "adjusted current earnings" over an amount equal to its AMTI (before such adjustment item and the alternative tax net operating loss deduction). "Adjusted current earnings" would generally include certain tax-exempt interest, but not interest with respect to the Certificates.

Ownership of the Certificates may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, corporations subject to the branch profits tax, financial institutions, certain insurance companies, certain S corporations, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry tax-exempt obligations. Prospective purchasers of the Certificates should consult their tax advisors as to applicability of any such collateral consequences.

The issue price (the "Issue Price") for each maturity of the Certificates is the price at which a substantial amount of such maturity of the Certificates is first sold to the public. The Issue Price of a maturity of the Certificates may be different from the price set forth, or the price corresponding to the yield set forth, on the inside cover page hereof.

Owners of Certificates who dispose of Certificates prior to the stated maturity (whether by sale, redemption or otherwise), purchase Certificates in the initial public offering, but at a price different from the Issue Price, or purchase Certificates subsequent to the initial public offering, should consult their own tax advisors.

If a Certificate is purchased at any time for a price that is less than the Certificate's stated redemption price at maturity (the "Reduced Issue Price"), the purchaser will be treated as having purchased a Certificate with market discount subject to the market discount rules of the Code (unless a statutory de minimis rule applies). Accrued market discount is treated as taxable ordinary income and is recognized when a Certificate is disposed of (to the extent such accrued discount does not exceed gain realized) or, at the purchaser's election, as it accrues. Such treatment would apply to any purchaser who purchases a Certificate for a price that is less than its Revised Issue Price. The applicability of the market discount rules may adversely affect the liquidity or secondary market price of such Certificate. Purchasers should consult their own tax advisors regarding the potential implications of market discount with respect to the Certificates.

An investor may purchase a Certificate at a price in excess of its stated principal amount. Such excess is characterized for federal income tax purposes as "bond premium" and must be amortized by an investor on a constant yield basis over the remaining term of the Certificate in a manner that takes into account potential call dates and call prices. An investor cannot deduct amortized bond premium relating to a tax-exempt bond. The amortized bond premium is treated as a reduction in the tax-exempt interest received. As bond premium is amortized, it reduces the investor's basis in the Certificate. Investors who purchase a Certificate at a premium should consult their own tax advisors regarding the amortization of bond premium and its effect on the Certificate's basis for purposes of computing gain or loss in connection with the sale, exchange, redemption or early retirement of the Certificate.

There are or may be pending in the Congress of the United States legislative proposals, including some that carry retroactive effective dates, that, if enacted, could alter or amend the federal tax matters referred to above or affect the market value of the Certificates. 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. Prospective purchasers of the Certificates should consult their own tax advisors regarding any pending or proposed federal tax legislation. Special Counsel expresses no opinion regarding any pending or proposed federal tax legislation.

The Internal Revenue Service (the "Service") has an ongoing program of auditing tax exempt obligations to determine whether, in the view of the Service, interest on such tax exempt obligations is includable in the gross income of the owners thereof for federal income tax purposes. It cannot be predicted whether or not the Service will commence an audit of the Certificates. If an audit is commenced, under current procedures the Service may treat the Issuer as a taxpayer and the Owners may have no right to participate in such procedure. The commencement of an audit could adversely affect the market value and liquidity of the Certificates until the audit is concluded, regardless of the ultimate outcome.

Payments of interest with respect to, and proceeds of the sale, redemption or maturity of, tax exempt obligations, including the Certificates, are in certain cases required to be reported to the Service. Additionally, backup withholding may apply to any such payments to any Certificate owner who fails to provide an accurate Form W-9 Request for Taxpayer Identification Number and Certification, or a substantially identical form, or to any Certificate owner who is notified by the Service of a failure to report any interest or dividends required to be shown on federal income tax returns. The reporting and backup withholding requirements do not affect the excludability of such interest from gross income for federal tax purposes.

In the further opinion of Special Counsel, interest with respect to the Certificates is exempt from California personal income taxes.

Ownership of the Certificates may result in other state and local tax consequences to certain taxpayers. Special Counsel expresses no opinion regarding any such collateral consequences arising with respect to the Certificates. Prospective purchasers of the Certificates should consult their tax advisors regarding the applicability of any such state and local taxes.

The complete text of the final opinion that Special Counsel expects to deliver upon the delivery of the Certificates is set forth in APPENDIX C—FORM OF FINAL OPINION OF SPECIAL COUNSEL.

MUNICIPAL ADVISOR

The District has retained Wulff, Hansen & Co., San Francisco, California, as municipal advisor (the "Municipal Advisor") in connection with the execution and delivery of the Certificates. The Municipal Advisor has assisted the District in the review of this Official Statement and in other matters relating to the planning, structuring, execution and delivery of the Certificates. The Municipal Advisor has not audited, authenticated or otherwise independently verified any of the data contained herein. The Municipal Advisor has not conducted a detailed investigation of the affairs of the District to determine the accuracy or completeness of disclosure information contained in this Official Statement. Due to its limited participation, the Municipal Advisor assumes no responsibility for the accuracy or completeness of any of

the information contained herein and offers no guaranty, warranty or other representation respecting the accuracy and completeness of this Official Statement. The fees of the Municipal Advisor are contingent upon the sale and delivery of the Certificates.

CERTAIN LEGAL MATTERS

Quint & Thimmig LLP, Larkspur, California, Special Counsel, will render an opinion with respect to the validity and enforceability of the Installment Sale Agreement, the Trust Agreement and the Assignment Agreement, the form of which opinion is set forth in Appendix C. Certain disclosure matters will be passed upon by for the District by Quint & Thimmig LLP, Larkspur, California, Disclosure Counsel. Certain matters will be passed upon by for the District by Hanson Bridgett LLP, San Francisco, California.

ABSENCE OF LITIGATION

There is no litigation pending against the District, nor, to the knowledge of the officers or attorneys of the District, threatened, in any court or other tribunal of competent jurisdiction, state or federal, in any way (i) restraining or enjoining the execution, sale or delivery of any of the Certificates, or (ii) questioning or affecting the validity of the Certificates or (iii) questioning or affecting the validity of any of the proceedings for the authorization, sale, execution or delivery of the Certificates, or (iv) questioning or affecting the validity or enforceability of the Installment Sale Agreement or Trust Agreement, or (v) questioning or affecting the operation of the Water System or the pledge of the Net Revenues, or the collection of the payments to be made pursuant to the Installment Sale Agreement.

RATING

S&P Global Ratings ("S&P") has assigned the rating of "AA" to the Certificates. This rating reflects only the views of S&P and an explanation of the significance of such rating may be obtained from S&P. There is no assurance that such rating will continue for any given period of time or that such rating will not be revised downward or withdrawn entirely by S&P, if in the judgment of the S&P, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Certificates.

UNDERWRITING

Following a competitive sale, the Certificates will be purchased by _____ (the "Underwriter"). The Underwriter will agree to purchase the Certificates at a price of \$ _____ (representing an aggregate principal amount of the Certificates of \$ _____, plus a net original issue premium of \$ _____, and less an Underwriter's discount of \$ _____). After a bona fide initial public offering at the price stated on the inside cover page hereof, the Underwriter may offer and sell the Certificates to certain dealers and others at prices lower than the initial public offering price. The offering price may be changed from time to time by the Underwriter.

AVAILABILITY OF DOCUMENTS

Copies of the Installment Sale Agreement, the Trust Agreement and the Assignment Agreement will be available, upon written request, from the General Manager of the Mid-Peninsula Water District, 3 Dairy Lane, Belmont, CA 94002 (650) 591-8941

MISCELLANEOUS

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

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 Certificates.

The execution and delivery of this Official Statement has been duly authorized by the District.

MID-PENINSULA WATER DISTRICT

By _____
General Manager

APPENDIX A

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following is a brief summary of certain provisions of the Installment Sale Agreement, the Assignment Agreement and the Trust Agreement prepared for Certificates. The following also includes definitions of certain terms used therein and in this Official Statement. Such summary is not intended to be definitive. Reference is directed to said documents for the complete text thereof. Except as otherwise defined in this summary, the terms previously defined in this Official Statement have the respective meanings previously given. Copies of said documents are available from the District and from the Trustee.

DEFINITIONS

“*Acquisition Agreement*” means the Acquisition Agreement, dated as of December 1, 2016, by and between the District and the Corporation, together with any duly authorized and executed amendments thereto.

“*Additional Payments*” means the payments so designated and required to be paid by the District pursuant to the Installment Sale Agreement.

“*Assignment Agreement*” means the agreement by that name, dated as of December 1, 2016, by and between the Corporation and the Trustee, together with any amendments or supplements thereto.

“*Board*” means the Board of Directors of the District.

“*Bond Counsel*” means (a) Quint & Thimmig LLP, or (b) any other attorney or firm of attorneys appointed by or acceptable to the District of nationally-recognized experience in the issuance of obligations the interest on which is excludable from gross income for federal income tax purposes under the Code.

“*Business Day*” means a day which is not a Saturday, Sunday or legal holiday on which banking institutions in the state in which the Principal Corporate Trust Office is located are closed or are required to close or a day on which the New York Stock Exchange is closed.

“*Certificate Register*” means the registration books relating to the Certificates maintained by the Trustee in accordance with the Trust Agreement.

“*Certificates*” means the Certificates of Participation executed and delivered pursuant to the Trust Agreement.

“*District*” means the Mid-Peninsula Water District, a water district duly organized and existing under the Constitution and laws of the State.

“*District Representative*” means the President, the Vice President, the General Manager, or the designee of any such official, or any other person authorized by resolution delivered to the Trustee to act on behalf of the District under or with respect to the Installment Sale Agreement and the Trust Agreement.

“*Closing Date*” means December 1, 2016, the date upon which there is a physical delivery of the Certificates in exchange for the amount representing the purchase of the Certificates by the Original Purchaser.

“*Code*” means the Internal Revenue Code of 1986 as in effect on the Closing Date or (except as otherwise referenced in the Installment Sale Agreement or the Trust Agreement) as it may be amended to apply to obligations issued on the Closing Date, together with applicable temporary and final regulations promulgated under the Code.

“*Corporation*” means the Public Property Financing Corporation of California, a nonprofit, public benefit corporation organized and existing under the laws of the State.

“Corporation Representative” means the President, the Executive Director and the Treasurer of the Corporation, or the designee of any such official, or any other person authorized by resolution delivered to the Trustee to act on behalf of the Corporation under or with respect to the Installment Sale Agreement, the Assignment Agreement and the Trust Agreement.

“Debt Service” means the scheduled amount of interest and amortization of principal payable with respect to the Certificates during the period of computation, excluding amounts scheduled during such period which relate to principal which has been retired before the beginning or during such period.

“Defeasance Obligations” means (a) cash, (b) non-callable direct obligations of the United States of America (“Treasuries”), (c) evidences of ownership of proportionate interests in future interest and principal payments on Treasuries held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying Treasuries are not available to any person claiming through the custodian or to whom the custodian may be obligated, (d) pre-refunded municipal obligations rated “AAA” and “Aaa” by S&P and Moody’s, respectively, or (e) securities eligible for “AAA” defeasance under then existing criteria of S&P.

“Delivery Costs” means all items of expense directly or indirectly payable by or reimbursable to the District or the Corporation relating to the execution and delivery of the Acquisition Agreement, the Installment Sale Agreement, the Trust Agreement and the Assignment Agreement or the execution, sale and delivery of the Certificates, including but not limited to filing and recording costs, settlement costs, printing costs, reproduction and binding costs, costs for statistical data, initial fees and charges of the Trustee (including the fees and expenses of its counsel), financing discounts, legal fees and charges, insurance fees and charges (including title insurance), financial and other professional consultant fees, costs of rating agencies for credit ratings, fees for execution, transportation and safekeeping of the Certificates and charges and fees in connection with the foregoing.

“Delivery Costs Fund” means the fund by that name established pursuant to the Trust Agreement and held by the Trustee.

“Event of Default” means an event of default under the Installment Sale Agreement.

“Fair Market Value” means the price at which a willing buyer would purchase the investment from a willing seller in a bona fide, arm’s length transaction (determined as of the date the contract to purchase or sell the investment becomes binding) if the investment is traded on an established securities market (within the meaning of section 1273 of the Code) and, otherwise, the term “Fair Market Value” means the acquisition price in a bona fide arm’s length transaction (as referenced above) if (i) the investment is a certificate of deposit that is acquired in accordance with applicable regulations under the Code, (ii) the investment is an agreement with specifically negotiated withdrawal or reinvestment provisions and a specifically negotiated interest rate (for example, a guaranteed investment contract, a forward supply contract or other investment agreement) that is acquired in accordance with applicable regulations under the Code, (iii) the investment is a United States Treasury Security—State and Local Government Series that is acquired in accordance with applicable regulations of the United States Bureau of Public Debt, or (iv) any commingled investment fund in which the District and related parties do not own more than a ten percent (10%) beneficial interest therein if the return paid by the fund is without regard to the source of the investment.

“Federal Securities” means (a) direct obligations (other than an obligation subject to variation in principal repayment) of the United States of America (“U.S. Treasury Obligations”), (b) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by the United States of America, (c) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by any agency or instrumentality of the United States of America when such obligations are backed by the full faith and credit of the United States of America, or (d) evidence 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 any period of twelve (12) consecutive months established by the District as its fiscal year and shall initially mean the period commencing July 1 of one year and ending on June 30 of the following year.

“*Gross Water System Revenues*” means all gross income and revenue received by the District from the ownership and operation of the Water System, including, without limiting the generality of the foregoing, (a) all income, rents, rates, fees, charges or other moneys derived from the services, facilities and commodities sold, furnished or supplied through the facilities of the Water System, (b) the earnings on and income derived from the investment of such income, rents, rates, fees, charges or other moneys to the extent that the use of such earnings and income is limited by or pursuant to the law to the Water System, (c) the proceeds derived by the District directly or indirectly from the sale, lease or other disposition of a part of the Water System as permitted in the Installment Sale Agreement, and (d) all investment earnings credited by the Trustee under the Trust Agreement to the Installment Payment Fund; *provided, however*, that the term “Gross Water System Revenues” shall not include customers’ deposits or any other deposits subject to refund until such deposits have become the property of the District.

“*Independent Counsel*” means an attorney or a firm of attorneys duly admitted to the practice of law before the highest court of the state in which he or such firm maintains an office and who is not an employee of the Corporation, the Trustee or the District.

“*Information Services*” means the Electronic Municipal Market Access System (referred to as “EMMA”), a facility of the Municipal Securities Rulemaking Board (at <http://emma.msrb.org>) or, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other national information services providing information or disseminating notices of redemption of obligations similar to the Certificates as designated to the Trustee in writing by the District or the Corporation.

“*Installment Payment*” means any payment required to be paid by the District to the Corporation pursuant to the Installment Sale Agreement.

“*Installment Payment Date*” means the 15th day of each May and November, commencing May 15, 2017.

“*Installment Payment Fund*” means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

“*Installment Sale Agreement*” means the agreement by that name, dated as of December 1, 2016, by and between the Corporation and the District, and any duly authorized and executed amendment or supplement thereto.

“*Insurance and Condemnation Fund*” means the fund by that name established pursuant to the Trust Agreement and held by the Trustee.

“*Interest Payment Date*” means June 1 and December 1 of each year, commencing June 1, 2017.

“*Moody’s*” means Moody’s Investors Service, New York, New York, or its successors.

“*Net Proceeds*” means any insurance proceeds or condemnation award paid with respect to the Project, remaining after payment therefrom of all expenses incurred in the collection thereof.

“*Net Revenues*” means Gross Water System Revenues less Operation and Maintenance Expenses.

“*Operation and Maintenance Expenses*” means, for any period, all reasonable and necessary costs paid or incurred by the District during such period for maintaining and operating the Water System and delivering or providing Water Service thereunder, determined in accordance with generally accepted accounting principles, including all costs of water produced or purchased by the District for resale through the Water System, and including all reasonable expenses of management and repair and all other expenses necessary to maintain and preserve the Water System in good repair and working order, and including all administrative costs of the District that are charged directly or apportioned to the operation of the Water System, such as salaries and wages of employees, overhead, taxes (if any) and insurance premiums, and including all other reasonable and necessary costs of the District or charges required to be paid by it to comply with the terms of the Installment Sale Agreement, the Trust

Agreement or of any resolution authorizing the execution of any Installment Purchase Contract or of any such Installment Purchase Contract or of any resolution authorizing the issuance of any Bonds or of any such Bonds, such as compensation, reimbursement and indemnification of the trustee, seller or lessor for any such Installment Purchase Contracts or Bonds and the fees of any independent certified public accountants or independent engineers, but excluding in all cases, depreciation, replacement and obsolescence charges or reserve therefor and amortization of intangibles.

“*Original Purchaser*” means the first purchaser of the Certificates upon their delivery by the Trustee on the Closing Date.

“*Outstanding*”, when used as of any particular time with respect to Certificates, means (subject to the provisions of the Trust Agreement) all Certificates theretofore executed and delivered by the Trustee under the Trust Agreement except:

(a) Certificates theretofore canceled by the Trustee or surrendered to the Trustee for cancellation;

(b) Certificates for the payment or redemption of which funds or eligible securities in the necessary amount, including accrued interest thereon, shall have theretofore been deposited with the Trustee (whether upon or prior to the maturity or redemption date of such Certificates), provided that, if such Certificates are to be redeemed prior to maturity, notice of such redemption shall have been given as provided in the Trust Agreement or provision satisfactory to the Trustee shall have been made for the giving of such notice; and

(c) Certificates in lieu of or in exchange for which other Certificates shall have been executed and delivered by the Trustee pursuant to the Trust Agreement.

“*Owner*” or “*Certificate Owner*” or “*Owner of a Certificate*”, or any similar term, means the person in whose name a Certificate shall be registered.

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

“*Permitted Encumbrances*” means, as of any particular time: (a) liens for general ad valorem taxes and assessments, if any, not then delinquent, or which the District may, pursuant to provisions of the Installment Sale Agreement, permit to remain unpaid; (b) the Installment Sale Agreement and the assignment of the Corporation’s interests in the Installment Sale Agreement pursuant to the Assignment Agreement; (c) any right or claim of any mechanic, laborer, materialman, supplier or vendor filed or perfected in the manner prescribed by law and (d) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions which exist of record as of the date of the Installment Sale Agreement.

“*Permitted Investments*” means any of the following, but only to the extent that the same are acquired at Fair Market Value, provided that the Trustee is entitled to rely upon any investment direction received by it under the Trust Agreement as a certification that such investment constitutes a Permitted Investment under the Trust Agreement:

(a) direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America) or obligations the timely payment of which are fully and unconditionally guaranteed by the United States of America or any certificates, receipts, securities or other obligations evidencing ownership or the right to receive a specified portion of payments to be made on any such security;

(b) obligations, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following: Banks for Cooperatives, Federal Intermediate Credit Banks, Federal Farm Credit Bank, Federal Home Loan Bank System, Export-Import Bank of the United States, Federal Financing Bank, Federal Land Banks, Government National Mortgage Association, Farmer’s Home Administration, Federal Home Loan Mortgage

Corporation or Federal Housing Administration; or by any agency, department or instrumentality of the United States if such obligations are rated within the top two ratings of a nationally recognized rating service;

(c) bonds of the State or of any county or city or other political subdivision of the State, and other obligations the interest on which is excluded from gross income for federal income tax purposes, for which a nationally recognized rating service is maintaining a rating within the top two ratings of such rating service;

(d) repurchase or reverse repurchase agreements with banks (including the Trustee or any of its affiliates), lead banks of parent holding companies, or savings and loan associations, with a combined capital and surplus aggregating at least fifty million dollars (\$50,000,000) and the unsecured securities of which are rated by a nationally recognized rating service within the top two ratings of such rating service, or secured by a letter of credit issued by such bank, lead bank or savings and loan association, or the underlying securities of which are obligations described in clause (a) or (b) of this definition provided that such collateral security continuously has a market value (valued at least quarterly) at least equal to the repurchase price from time to time payable with respect thereto, so long as such underlying obligations or securities are in the possession of the Trustee and provided further that, as evidenced by an opinion of counsel, the Trustee shall have a perfected security interest in such collateral security, free and clear of any third-party claims;

(e) bank deposit products interest-bearing banker's acceptances, investment agreements, demand or time deposits (including certificates of deposit including those placed by a third party pursuant to an agreement between the District and the Trustee), trust funds, trust accounts, overnight bank deposits, interest bearing deposits, interest bearing money market accounts and guaranteed investment contracts in or with banks (including the Trustee and its affiliates), and savings and loan associations, provided such deposits are either (i) secured at all times, in the manner and to the extent provided by law, by collateral security (described in clauses (a) or (b) of this definition) of a market value of no less than the amount of moneys so invested or (ii), in or with banks (including the Trustee) or savings and loan associations having a combined capital and surplus of at least fifty million dollars (\$50,000,000) and whose rating, or the rating of its parent holding company, is within the top two ratings of a nationally recognized rating service or (iii) fully insured by the Federal Deposit Insurance Corporation;

(f) Investment agreements with any nationally or state-chartered bank, financial institution, insurance company, trust company, or any other publicly traded corporation which has long-term debt obligations rated in one of the two highest rating categories of a nationally recognized rating service;

(g) money market mutual funds (including funds for which the Trustee or its affiliates receives and retains a fee for providing investment advisory, transfer agency, custodial or other management services) rated in the highest rating category by S&P or whose portfolios are restricted to (i) obligations with maturities of one year or less, issued or guaranteed as to payment of principal and interest by the full faith and credit of the United States of America, or consisting of securities designated in clause (b) of this definition, or (ii) such obligations or repurchase agreements fully collateralized by obligations with an average maturity of one year or less issued or guaranteed as to payment of principal by the full faith and credit of the United States of America if, in the case of this clause (f) only, such portfolio is rated in the top rating category of a national rating agency;

(h) obligations the interest on which is excludable from gross income for purposes of federal income taxation and the timely payment of the principal of and interest on which is fully provided for by the deposit in trust or escrow of cash or obligations described in clause (a), (b) or (e) of this definition (not callable by the issuer thereof prior to maturity) and the trust or escrow instructions for which cannot be amended to provide for redemption of such obligations prior to the date set forth in the trust or escrow agreement governing such deposit and are rated by each rating agency then rating the Bonds in its highest rating category; and

(i) the Local Agency Investment Fund of the State, 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.

"Prepayment" means any payment applied towards the prepayment of the Installment Payments, in whole or in part, pursuant to the Installment Sale Agreement.

“*Principal Corporate Trust Office*” means the corporate trust office of the Trustee in San Francisco, California, or at such other address designated by the Trustee by written notice filed with the District and the Corporation, except that with respect to presentation of Certificates for payment or for registration of transfer and exchange such term shall mean the office or agency of the Trustee at which, at any particular time, its corporate trust agency business shall be conducted.

“*Proceeds*,” when used with reference to the Certificates, means the face amount of the Certificates, plus accrued interest and premium, if any, less original issue discount, if any.

“*Project*” means the improvements to the Water System described in Exhibit B to the Installment Sale Agreement.

“*Project Costs*” means the costs of the acquisition, construction, rehabilitation, equipping, improvement or financing of improvements to, or part of, the Water System constituting the Project.

“*Project Fund*” means the fund by that name established pursuant to the Trust Agreement and held by the Trustee.

“*Rating Category*” means, with respect to any Permitted Investment, one or more of the generic categories of rating by Moody’s and/or S&P applicable to such Permitted Investment, without regard to any refinement or gradation of such rating category by a plus or minus sign.

“*Regular Record Date*” means the close of business on the fifteenth (15th) day of the month preceding each Interest Payment Date, whether or not such fifteenth (15th) day is a Business Day.

“*S&P*” means S&P Global Ratings, or its successors.

“*Securities Depositories*” means The Depository Trust Company, 55 Water Street, 50th Floor, New York, NY 10041 Attention: Call Notification Department; or to such other addresses and/or such other registered securities depositories holding substantial amounts of obligations of types similar to the Certificates.

“*State*” means the State of California.

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

“*Term of the Installment Sale Agreement*” means the time during which the Installment Sale Agreement is in effect, as provided in the Installment Sale Agreement.

“*Trustee*” means The Bank of New York Mellon Trust Company, N.A., or any successor thereto, acting as Trustee pursuant to the Trust Agreement.

“*Trust Agreement*” means the agreement by that name, dated as of December 1, 2016, by and among the Trustee, the Corporation and the District, together with any amendments or supplements thereto permitted to be made thereunder.

“*Water System*” means all facilities, properties, structures or works for the production, storage and delivery of water now owned by or hereafter acquired and constructed by the District and determined to be a part of the Water System, including all contractual rights for water, together with additions, betterments, extensions or improvements to such facilities, properties, structures or works or any part thereof hereafter acquired and constructed by the District.

“*Written Certificate*” of the District means a written certificate signed in the name of the District by a District Representative. Any such certificate or request may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a

single instrument. If and to the extent required by the Trust Agreement or the Installment Sale Agreement, each such certificate shall include the statements provided for in the Trust Agreement or the Installment Sale Agreement.

INSTALLMENT SALE AGREEMENT

Sale

Upon the terms and conditions set forth in the Installment Sale Agreement, the Corporation sells, bargains and conveys the Project to the District, and the District purchases the Project from the Corporation.

Title

The District and the Corporation agree that title to the Project shall be deemed conveyed to and vested in the District on the Closing Date, subject only to Permitted Encumbrances. The Corporation and its officers shall take all actions necessary to vest in the District all of the Corporation's rights in and title to the Project.

Term of the Installment Sale Agreement

The Term of the Installment Sale Agreement shall commence as of the Closing Date and shall end on December 1, 2046, unless such term is extended or sooner terminated. If on December 1, 2046, the Trust Agreement shall not be discharged by its terms, then the Term of the Installment Sale Agreement shall be extended until the date on which the Trust Agreement shall be discharged by its terms. If prior to December 1, 2046, the Trust Agreement shall be discharged by its terms, the Term of the Installment Sale Agreement shall thereupon end.

Installment Payments

Obligation to Pay. The District agrees to pay to the Corporation, its successors and assigns, as the purchase price of the Project, the Installment Payments, consisting of components of principal and interest, on the Installment Payment Dates and in the amounts specified in the Installment Sale Agreement, except such amounts shall be reduced by moneys on deposit in the Installment Payment Fund and credited to the payment of Installment Payments next due. The Installment Payments shall be payable solely from Net Revenues. The first Installment Payment shall be due on May 15, 2017.

Reduction Upon Partial Prepayment. In the event the District prepays less than all of the remaining principal components of the Installment Payments, the amount of such prepayment shall be applied to reduce the principal component of the subsequent remaining Installment Payments in inverse order of Installment Payment Date and the interest component of each subsequent remaining Installment Payment shall be reduced by the aggregate corresponding amount of interest which would otherwise be payable with respect to the Certificates redeemed as a result of such prepayment.

Rate on Overdue Payments. In the event the District should fail to make any of the payments required in Installment Sale Agreement so that there are insufficient moneys on hand in the Installment Payment Fund to pay any Installment Payment in full on an Installment Payment Date, the Installment Payment in default shall continue as an obligation of the District until the amount in default shall have been fully paid and the District agrees to pay the same with interest thereon, to the extent permitted by law, from the date thereof at the rate of interest payable with respect to the Certificates.

Assignment. The District understands and agrees that the Corporation has assigned its right, title and interest (but not its duties or obligations) in the Installment Sale Agreement to the Trustee pursuant to the Assignment Agreement for the benefit of the Owners and the District assents to such assignment. The Corporation directs the District, and the District agrees, to pay to the Trustee at the Trustee's principal corporate trust office or at such other place as the Trustee shall direct in writing, all payments payable by the District pursuant to Installment Sale Agreement.

Special Obligation of the District

The District's obligation to pay the Installment Payments shall be a special obligation limited solely to Net Revenues. Under no circumstances shall the District be required to advance any moneys derived from any source of income other than the Net Revenues and other sources specifically identified in the Installment Sale Agreement for the payment of the Installment Payments, nor shall any other funds or property of the District be liable for the payment of the Installment Payments.

The obligations of the District to make the Installment Payments from Net Revenues and to perform and observe the other agreements contained in the Installment Sale Agreement shall be absolute and unconditional and shall not be subject to any defense or any right of set-off, counterclaim or recoupment arising out of any breach of the District, the Corporation or the Trustee of any obligation to the District or otherwise with respect to the Project, whether under the Installment Sale Agreement or otherwise, or out of indebtedness or liability at any time owing to the District by the Corporation or the Trustee. Until such time as all of the Installment Payments shall have been fully paid or prepaid, the District (a) will not suspend, abate, or discontinue any payments provided for in Installment Sale Agreement, (b) will perform and observe all other agreements contained in the Installment Sale Agreement, and (c) will not terminate the Term of the Installment Sale Agreement 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 Project, the taking by eminent domain of title to or temporary use of any or all of the Project, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State or any political subdivision of either thereof or any failure of the Corporation or 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 Trust Agreement, the Assignment Agreement or the Installment Sale Agreement.

Nothing contained in Installment Sale Agreement shall be construed to release the Corporation from the performance of any of the agreements on its part contained in the Installment Sale Agreement, and in the event the Corporation shall fail to perform any such agreements on its part, the District may institute such action against the Corporation as the District may deem necessary to compel performance so long as such action does not abrogate the obligations of the District contained in the first sentence of the preceding paragraph. The District may, however, at the District's own cost and expense and in the District's own name or in the name of the Corporation prosecute or defend any action or proceeding or take any other action involving third persons which the District deems reasonably necessary in order to secure or protect the District's right of possession, occupancy and use under the Installment Sale Agreement, and in such event the Corporation agrees to cooperate fully with the District and to take such action necessary to effect the substitution of the District for the Corporation in such action or proceeding if the District shall so request.

Pledge of Net Revenues; Deposits to Pay Installment Payments; Release from Lien

Pledge of Net Revenues. The District agrees that the payment of the Installment Payments shall be secured by a pledge, charge and first and prior lien upon Net Revenues, and Net Revenues sufficient to pay the Installment Payments as they become due and payable are pledged, charged, assigned, transferred and set over by the District to the Corporation and its assigns for the purpose of securing payment of the Installment Payments. The Net Revenues shall constitute a trust fund for the security and payment of the Installment Payments.

Transfer to Pay Installment Payments. In order to provide for the payment of Installment Payments when due, the District shall, on or before each Installment Payment Date, transfer to the Trustee for deposit into the Installment Payment Fund the amount indicated in the Installment Sale Agreement as required for the next occurring Installment Payment Date. The District shall be obligated to make Installment Payments sufficient to pay all principal and interest due with respect to the Certificates.

Release from Lien. Following the transfer described above with respect to the November 15 Installment Payment Date, Net Revenues in excess of amounts required for the payment of Installment Payments and any Parity Debt in that Fiscal Year shall be released from the lien of this Installment Sale Agreement and shall be available for any lawful purpose of the District.

Limitation on Use of Net Revenues for Capital Improvements. The District agrees that Net Revenues shall not be applied for the payment of capital improvements relating to the Water System until such Net Revenues have been released from the lien of the Installment Sale Agreement as described above.

Rate Covenant

The District hereby covenants that it shall prescribe, revise and collect such charges for the services and facilities of the Water System which, after allowances for contingencies and error in the estimates, shall produce Gross Water System Revenues sufficient in each Fiscal Year to provide Net Revenues equal to at least 1.30 times (i) the Installment Payments coming due and payable during such Fiscal Year, and (ii) all payments required with respect to Parity Debt.

If, in any Fiscal Year, charges for the services and facilities of the Water System which, after allowances for contingencies and error in the estimates, shall produce Gross Water System Revenues insufficient in each Fiscal Year to provide Net Revenues equal to at least 1.30 times (i) the Installment Payments coming due and payable during such Fiscal Year, and (ii) all payments required with respect to Parity Debt, the District covenants and agrees to notify the Trustee of such fact and to employ an independent consultant to make recommendations as to a revision of the rates, fees and charges of the Water System or the methods of operation of the Water System that will result in producing Net Revenues equal to at least 1.30 times (i) the Installment Payments coming due and payable during such Fiscal Year, and (ii) all payments required with respect to Parity Debt.

The District covenants and agrees that it shall, promptly upon its receipt of such recommendations from such consultant, subject to applicable requirements or restrictions imposed by law, and subject to a good faith determination of the Board of Directors of the District that such recommendations, in whole or in part, are in the best interests of the District, revise its rates, fees and charges or its methods of operation or collections and shall take such other action as shall be in conformity with such recommendations. In the event that the District fails to comply with such recommendations, subject to the applicable requirements or restrictions imposed by law and to the determination of the Board of Directors of the District that such recommendations are in the best interests of the District, the Corporation, or its assignee, may, in addition to the rights and remedies elsewhere set forth in this Installment Sale Agreement, and shall, upon the written request of the Owners of a majority in principal amount of the Certificates then Outstanding, and being indemnified to its satisfaction therefor, institute and prosecute an action or proceeding in a court of competent jurisdiction to compel the District to comply with the recommendations and requirements of this paragraph (c). If the District complies in all material respects with the reasonable recommendations of the consultant in respect to said rates, fees, charges and methods of operation or collection (as evidenced by an officer's certificate of such consultant or the District, upon which the Trustee may conclusively rely), the District will be deemed to have complied with the covenants described above notwithstanding that Net Revenues shall be less than the amount required under this Installment Sale Agreement for such Fiscal Year; provided, however, that such rates, fees, charges and methods of operation or collection shall produce Net Revenues equal to at least 100% of (i) the Installment Payments coming due and payable during such Fiscal Year, and (ii) all payments required with respect to Parity Debt; provided further, that this sentence shall not be construed as in any way excusing the District from taking any action or performing any duty required under this Installment Sale Agreement or be construed as constituting a waiver of any other Event of Default.

Limitations on Future Obligations Secured by Net Revenues

No Obligations Superior to Installment Payments. In order to protect further the availability of the Net Revenues and the security for the Installment Payments and any Parity Debt, the District agrees that the District shall not, so long as any Certificates are outstanding, issue or incur any obligations payable from Gross Revenues or Net Revenues superior to the Installment Payments or such Parity Debt.

Parity Debt. The District further covenants that, except for obligations issued or incurred to prepay the Installment Payments in full pursuant to Installment Sale Agreement, the District shall not issue or incur any Parity Debt unless:

- (i) The District is not in default under the terms of this Installment Sale Agreement;

(ii) The Net Revenues for the most recent audited Fiscal Year preceding the date of the adoption by the Board of Directors of the District of the resolution authorizing the incurrence of such Parity Debt, as evidenced by both a calculation prepared by the District and the special report prepared by an Independent Certified Public Accountant on such calculation on file with the District, shall have produced a sum equal to at least one hundred thirty per cent (130%) of the Debt Service for such Fiscal Year, and

(iii) The estimated Net Revenues for the then current Fiscal Year and for each Fiscal Year thereafter to and including the first complete Fiscal Year after the latest date of operation of any uncompleted Project, as evidenced by an Engineer's Report on file with the District, plus (after giving effect to the completion of all uncompleted Projects) an allowance for estimated Net Revenues for each of such Fiscal Years arising from any increase in the rates, fees and charges estimated to be fixed and prescribed for the Water Service and which are economically feasible and reasonably considered necessary based on projected operations for such period, as evidenced by such Engineer's Report on file with the District, shall produce a sum equal to at least one hundred twenty per cent (120%) of the estimated Debt Service for each of such Fiscal Years, after giving effect, in either case, to the execution of all Parity Debt estimated to be required to be executed or issued to pay the costs of completing all uncompleted Projects, assuming that all such Parity Debt have maturities, interest rates and proportionate principal repayment provisions similar to the Parity Debt that were first issued for the purpose of acquiring and constructing such uncompleted Project.

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

(A) An allowance for revenues from any additions to or improvements or extensions of the Water System to be constructed with the proceeds of such additional obligations, and also for net revenues from any such additions, improvements or extensions which have been from moneys from any source but which, during all or any part of such Fiscal Year, were not in service, all in an amount equal to 70% of the estimated additional average annual Net Revenues to be derived from such additions, improvements and extensions for the first 36-month period following closing of the proposed Parity Debt, all as shown by the certificate or opinion of a qualified independent consultant employed by the District, may be added to such Net Revenues for the purpose of applying the restriction contained in this subsection (b)(iii).

(B) An allowance for earnings arising from any increase in the charges made for service from the Water System which has become effective prior to the incurring of such additional obligations but which, during all or any part of such Fiscal Year, 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 and any period prior to the incurring of such additional obligations, as shown by the certificate or opinion of a qualified independent engineer employed by the District.

(iv) Interest with respect to such Parity Debt shall be paid on the Interest Payment Dates.

(v) Principal with respect to such Parity Debt shall be paid on December 1.

The District shall deliver to the Trustee a Certificate of the District certifying that the conditions precedent to the issuance of such Parity Debt have been satisfied.

Subordinate Debt. The District covenants that it shall not issue or incur any Subordinate Debt unless:

(i) The District is not in default under the terms of the Installment Sale Agreement;

(ii) Net Revenues, 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 Subordinate Debt is issued or incurred, plus, at the option of the District, the additional allowance

described below, shall have amounted to at least 1.0 times the maximum Debt Service coming due and payable in any future Fiscal Year;

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

(A) An allowance for revenues from any additions to or improvements or extensions of the Water System to be constructed with the proceeds of such additional obligations, and also for net revenues from any such additions, improvements or extensions which have been from moneys from any source but which, during all or any part of such Fiscal Year, were not in service, all in an amount equal to 70% of the estimated additional average annual Net Revenues to be derived from such additions, improvements and extensions for the first 36-month period following closing of the proposed Parity Debt, all as shown by the certificate or opinion of a qualified independent consultant employed by the District, may be added to such Net Revenues for the purpose of applying the restriction contained in this subsection (ii).

(B) An allowance for earnings arising from any increase in the charges made for service from the Water System which has become effective prior to the incurring of such additional obligations but which, during all or any part of such Fiscal Year, 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 and any period prior to the incurring of such additional obligations, as shown by the certificate or opinion of a qualified independent engineer employed by the District.

(iii) Interest with respect to such Subordinate Debt shall be paid on the Interest Payment Dates;
and

(iv) Principal with respect to such Subordinate Debt shall be paid on July 1.

The District shall deliver to the Trustee a Certificate of the District certifying that the conditions precedent to the issuance of such Subordinate Debt have been satisfied.

State Loans. The District may borrow money from the State to finance improvements to the Water System, without complying with the provisions of paragraphs (iv) or (v) above, relating to the issuance of Parity Debt, and the obligation of the District to make payments to the State under the loan agreement memorializing said loan (the "State Loan") may be treated as Parity Debt for purposes of the Installment Sale Agreement; provided that the District shall not make a payment on such State Loan (except as hereinafter expressly provided) to the extent it would have the effect of causing the District to fail to pay Installment Payments on a timely basis. In the event the Water System does not produce sufficient funds to make the full Installment Payments and such State Loan, the District shall make Installment Payments and such State Loan on a pro rata basis.

Additional Payments

In addition to the Installment Payments, the District shall pay, from Net Revenues, when due all costs and expenses incurred by the Corporation to comply with the provisions of the Trust Agreement and the Installment Sale Agreement, including, without limitation, compensation due to the Trustee for its fees, costs and expenses incurred under the Trust Agreement and the Assignment Agreement and all costs and expenses of attorneys, auditors, engineers and accountants.

Certain Covenants

Maintenance, Utilities, Taxes and Assessments. The District covenants to operate the Water System in an efficient and economical manner and operate, maintain and preserve the Water System in good repair and working order.

The District shall also pay or cause to be paid all taxes and assessments of any type or nature charged to the Corporation or the District or levied, assessed or charged against the Water System or the respective interests or estates therein; provided that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the District shall be obligated to pay only such installments as are required to be paid during the Term of the Installment Sale Agreement as and when the same become due. The District shall not be required to pay any federal, state or local income, inheritance, estate, succession, transfer, gift, franchise, gross receipts, profit, excess profit, capital stock, corporate, or other similar tax payable by the Corporation, its successors or assigns, unless such tax is made in lieu of or as a substitute for any real estate or other tax upon property.

The District may, at the District's expense and in its name, in good faith contest any such taxes, assessments, utility and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom unless the Corporation shall notify the District that, in the opinion of Independent Counsel, by nonpayment of any such items, or the Project or any part thereof will be subject to loss or forfeiture, in which event the District shall promptly pay such taxes, assessments or charges or provide the Corporation with full security against any loss which may result from nonpayment, in form satisfactory to the Corporation.

Modification of Project. The District shall, at its own expense, have the right to remodel the Project or to make additions, modifications and improvements thereto. All such additions, modifications and improvements shall thereafter comprise part of the Project and be subject to the provisions of the Installment Sale Agreement. Such additions, modifications and improvements shall not in any way damage the Project or cause it to be used for purposes other than those authorized under the provisions of state and federal law; and the Project, upon completion of any additions, modifications and improvements made pursuant to Installment Sale Agreement, shall be of a value which is not substantially less than the value of the Project immediately prior to the making of such additions, modifications and improvements.

Public Liability and Property Damage Insurance. The District shall maintain or cause to be maintained, throughout the Term of the Installment Sale Agreement, insurance policies, including a standard comprehensive general insurance policy or policies in protection of the District, its members, officers, agents and employees. Said policy or policies shall provide for indemnification of said parties against direct or contingent loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of the construction or operation of the Water System (but only if such insurance is available at reasonable cost on the open market from reputable insurance companies). Said policy or policies shall provide coverage in the minimum liability limits of \$1,000,000 for personal injury or death of each person and \$3,000,000 for personal injury or deaths of two or more persons in each accident or event, and in a minimum amount of \$250,000 (subject to a deductible clause of not to exceed \$300,000) for damage to property resulting from each accident or event. Such public liability and property damage insurance may, however, be in the form of a single limit policy in the amount of \$3,000,000 covering all such risks. Such liability insurance may be maintained as part of or in conjunction with any other liability insurance coverage carried by the District, and may be maintained in the form of insurance maintained through a joint exercise of powers authority created for such purpose or in the form of self-insurance by the District. If the District shall maintain self-insurance, it shall supply to the Trustee a statement of sufficiency by an independent insurance consultant or the District's risk General Manager on an annual basis. The Net Proceeds of such liability insurance shall be applied toward extinguishment or satisfaction of the liability with respect to which the insurance proceeds shall have been paid.

Fire and Extended Coverage Insurance. The District shall procure and maintain, or cause to be procured and maintained, throughout the Term of the Installment Sale Agreement, insurance against loss or damage to any structures constituting any part of the Water System (excluding transmission and distribution pipelines and equipment in public and private rights-of-way) by fire and lightning, with extended coverage insurance. Such insurance shall be in an amount equal to the greater of 100% of the replacement cost of the Project or the then Outstanding principal amount of Certificates. Such insurance may be subject to a deductible clause of not to exceed ten percent of said replacement cost for any one loss. Such insurance may be maintained as part of or in conjunction with any other fire and extended coverage insurance carried or required to be carried by the District, and may be maintained in the form of insurance maintained through a joint exercise of powers authority created for such purpose or in the form of self-insurance by the District. If the District shall maintain self-insurance, it will supply to the

Trustee a statement of sufficiency by an independent insurance consultant or the District's risk General Manager on an annual basis. The Net Proceeds of such insurance shall be applied as provided below.

Application of Net Proceeds.

From Insurance Award. The Net Proceeds of any insurance award resulting from any damage to or destruction of the Project by fire or other casualty shall be deposited in the Insurance and Condemnation Fund by the Trustee promptly upon receipt thereof and, if the District Representative notifies the Trustee in writing of the District's determination that the replacement, repair, restoration, modification or improvement of the Project is not economically feasible or in the best interest of the District, then such Net Proceeds shall be promptly transferred by the Trustee to the Installment Payment Fund to be applied as provided in Installment Sale Agreement. All Net Proceeds deposited in the Insurance and Condemnation Fund and not so transferred shall be applied to the prompt replacement, repair, restoration, modification or improvement of the Project by the District, upon receipt of a requisition, signed by the District Representative stating with respect to each payment to be made (i) the requisition number, (ii) the name and address of the person, firm or corporation to whom payment is due, (iii) the amount to be paid and (iv) that each obligation mentioned therein has been properly incurred, is a proper charge against the Insurance and Condemnation Fund, has not been the basis of any previous withdrawal, and specifying in reasonable detail the nature of the obligation. Any balance of the Net Proceeds remaining after such work has been completed shall be transferred to the Installment Payment Fund. 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.

From Eminent Domain Award. The Net Proceeds of any eminent domain award shall be deposited in the Insurance and Condemnation Fund to be held and applied by the Trustee pursuant to the Trust Agreement.

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

Tax Covenants.

Private Activity Bond Limitation. The District shall assure that proceeds of the Certificates are not so used as to cause the Certificates or the Installment Sale Agreement to satisfy the private business tests of section 141(b) of the Code or the private loan financing test of section 141(b) of the Code.

Private Loan Financing Limitation. The District shall assure that proceeds of the Certificates are not so used as to cause the Certificates or the Installment Sale Agreement to satisfy the private loan financing test of section 141(c) of the Code.

Federal Guarantee Prohibition. The District shall not take any action or permit or suffer any action to be taken if the result of the same would be to cause any of the Certificates or the Installment Sale Agreement to be "federally guaranteed" within the meaning of section 149(b) of the Code.

Maintenance of Tax-Exemption. The District shall take all actions necessary to assure the exclusion of interest with respect to the Certificates from the gross income of the Owners of the Certificates to the same extent as such interest is permitted to be excluded from gross income under the Code as in effect on the Closing Date.

Assignment, Sale and Amendment

Assignment by the Corporation. The Corporation's right, title and interest in the Installment Sale Agreement, including the right to receive and enforce payment of the Installment Payments to be made by the District under the Installment Sale Agreement, have been assigned to the Trustee, subject to certain exceptions, pursuant to the Assignment Agreement, to which assignment the District consents.

Assignment, Sale and Disposition by the District. The Installment Sale Agreement may not be assigned by the District, and the Water System may not be sold by the District during the Term of the Installment Sale Agreement.

The District may lease the Project, or any portion thereof, subject to all of the following conditions:

(a) The Installment Sale Agreement and the obligation of the District to make Installment Payments under the Installment Sale Agreement shall remain obligations of the District;

(b) The District shall, within thirty (30) days after the delivery thereof, furnish or cause to be furnished to the Corporation and the Trustee a true and complete copy of the documents accomplishing such lease;

(c) No such lease by the District shall cause the Project to be used for a purpose other than a governmental or proprietary function authorized under the provisions of the Constitution and laws of the State; and

(d) No such lease shall cause the interest component of the Installment Payments to become subject to federal or State personal income taxes.

Amendment of Installment Sale Agreement. Without the written consent of the Trustee, the District will not alter, modify or cancel or agree or consent to alter, modify or cancel the Installment Sale Agreement; excepting only as such alteration or modification may be permitted by the Trust Agreement.

Events of Default and Remedies

Events of Default Defined. The following shall be “events of default” under the Installment Sale Agreement and the terms “events of default” and “default” shall mean, whenever they are used in the Installment Sale Agreement, any one or more of the following events:

(a) Failure by the District to pay any Installment Payment by the Installment Payment Date or failure to make any other payment required to be paid under the Installment Sale Agreement at the time specified in the Installment Sale Agreement; or

(b) Failure by the District to observe and perform any covenant, condition or agreement on its part to be observed or performed in the Installment Sale Agreement or the Trust Agreement, other than as referred to in clause (a) above, for a period of thirty (30) days after written notice specifying such failure and requesting that it be remedied has been given to the District by the Corporation, the Trustee or the Owners of not less than twenty-five percent (25%) in aggregate principal amount of Certificates then Outstanding; *provided, however*, if the failure stated in the notice cannot be corrected within the applicable period, the Corporation, the Trustee or such Owners, as applicable, shall not unreasonably withhold their consent to an extension of such time if corrective action is instituted by the District within the applicable period and diligently pursued until the default is corrected; or

(c) The filing by the District of a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or the approval by a court of competent jurisdiction of a petition filed with or without the consent of the District seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction assumes 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 and be continuing with respect to any Parity Debt.

Remedies on Default. Whenever any event of default referred to in Installment Sale Agreement shall have happened and be continuing, the Corporation shall have the right, at its option and without any further demand or notice, to:

(a) declare all principal components of the unpaid Installment Payments, together with accrued interest at the rate or rates specified in the respective Outstanding Certificates from the immediately preceding Installment

Payment Date on which payment was made, to be immediately due and payable, whereupon the same shall become due and payable; and

(b) take whatever action at law or in equity may appear necessary or desirable to collect the Installment Payments then due or thereafter to become due during the Term of the Installment Sale Agreement, or enforce performance and observance of any obligation, agreement or covenant of the District under the Installment Sale Agreement.

No Remedy Exclusive. No remedy conferred upon or reserved to the Corporation in the Installment Sale Agreement is intended to be exclusive and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Installment Sale Agreement or now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient.

Security Deposit

Notwithstanding any other provision of the Installment Sale Agreement, the District may, on any date, secure the payment of Installment Payments by a deposit with the Trustee, as escrow holder under an escrow deposit and trust agreement, of:

(a) in the case of a security deposit relating to all Installment Payments, either (i) an amount which, together with amounts on deposit in the Installment Payment Fund, is sufficient to pay all unpaid Installment Payments, including the principal and interest components thereof, in accordance with the Installment Payment schedule set forth in the Installment Sale Agreement, or (ii) Federal Securities, together with cash, if required, in such amount as will, in the opinion of nationally-recognized bond counsel and of an independent certified public accountant, together with interest to accrue thereon and, if required, all or a portion of moneys or Federal Securities then on deposit in the Installment Payment Fund, be fully sufficient to pay all unpaid Installment Payments on their Installment Payment Date; or

(b) in the case of a security deposit relating to a portion of the Installment Payments both (i) a certificate executed by a District Representative designating the portion of the Installment Payments to which the deposit pertains, and (ii) cash or Federal Securities, in such amount as will, together with interest to be received thereon, if any, and an allocable portion of amounts on deposit in the Installment Payment Fund, be fully sufficient in the opinion of an independent certified public accountant, to pay the portion of the Installment Payments designated in the aforesaid District Representative's certificate.

In the event of a deposit described above, all obligations of the District under the Installment Sale Agreement pertaining to the portion of the Project for which the deposit has been made shall cease and terminate, excepting only the obligation of the District to make, or cause to be made, all Installment Payments, or the portion of Installment Payments to which the deposit pertains, from the deposit made by District. Said deposit shall be deemed to be and shall constitute a special fund for the payment of Installment Payments in accordance with the provisions of the Installment Sale Agreement. Upon said deposit, the Corporation will execute or cause to be executed any and all documents as may be necessary to release the security provided by the Installment Sale Agreement to the extent of such deposit.

ASSIGNMENT AGREEMENT

The Assignment Agreement is entered into between the Corporation and the Trustee, pursuant to which the Corporation assigns and transfers to the Trustee, for the benefit of the Owners, certain of the rights of the Corporation under the Installment Sale Agreement, including the right to receive Installment Payments under the Installment Sale Agreement and the rights and remedies of the Corporation under the Installment Sale Agreement to enforce payment of Installment Payments or otherwise to protect and enforce the Installment Sale in the event of default by the District. Certain rights of the Corporation to payment of advances, indemnification and attorneys' fees and expenses are not assigned.

TRUST AGREEMENT

Payment of Project Costs

Amounts in the Project Fund shall be disbursed for Project Costs. Disbursements from the Project Fund shall be made by the Trustee upon receipt of a sequentially numbered requisition requesting disbursement executed by a District Representative.

The Trustee shall be responsible for the safekeeping and investment (in accordance with the Trust Agreement) of the moneys held in the Project Fund and the payment thereof in accordance with the Trust Agreement, but the Trustee shall not be responsible for such requisitions and shall be fully protected in acting and relying upon such requisitions, without investigation.

Payment of Delivery Costs

The moneys in the Delivery Costs Fund shall be disbursed by the Trustee to pay the Delivery Costs. The Trustee shall disburse moneys in the Delivery Costs Fund only upon a receipt of a sequentially numbered requisition, with bills, invoices or statements attached, signed by a District Representative setting forth the amounts to be disbursed for payment or reimbursement of Delivery Costs and the name and address of the person or persons to whom said amounts are to be disbursed, stating that the amounts to be disbursed are for Delivery Costs properly chargeable to the Delivery Costs Fund.

The Trustee shall be responsible for the safekeeping and investment (in accordance with the Trust Agreement) of the moneys held in the Delivery Costs Fund and the payment thereof in accordance with the Trust Agreement, but the Trustee shall not be responsible for such requisitions and shall be fully protected in acting and relying upon such requisitions, without investigation.

Upon written notice from a District Representative that all Delivery Costs have been paid, but in no event later than March 21, 2017, the Trustee shall transfer any moneys then remaining in the Delivery Costs Fund to the Project Fund, the Delivery Costs Fund shall be closed and the Trustee shall no longer be obligated to make payments for Delivery Costs.

Transfers of Unexpended Proceeds

The Trustee is hereby directed that all unexpended moneys remaining in the Project Fund and not identified in writing by a District Representative to be required for payment of Project Costs or other capital improvements to the Water System shall, on the date of notification by the District to the Trustee of completion of the Project, be transferred to the Installment Payment Fund and applied to pay the Installment Payments as the same become due and payable.

Assignment of Rights in Installment Sale Agreement

The Corporation has, pursuant to the Assignment Agreement, transferred, assigned and set over to the Trustee all of its rights, title and interest in the Installment Sale Agreement (excepting only certain of its rights therein), including but not limited to all of the Corporation's rights to receive and collect all of the Installment Payments, the Prepayments and all other amounts required to be deposited in the Installment Payment Fund pursuant to the Installment Sale Agreement or pursuant to the Trust Agreement. All Installment Payments, Prepayments and such other amounts which the Corporation may at any time be entitled to shall be paid directly to the Trustee and all Installment Payments collected or received by the Corporation shall be deemed to be held or to have been collected or received by the Corporation as agent of the Trustee.

Installment Payment Fund

All moneys at any time deposited by the Trustee in the Installment Payment Fund shall be held by the Trustee in trust for the benefit of the Owners of the Certificates. So long as any Certificates are Outstanding, neither the District nor the Corporation shall have any beneficial right or interest in the Installment Payment Fund or the moneys deposited therein, except only as provided in the Trust Agreement, and such moneys shall be used and applied by the Trustee as hereinafter set forth.

There shall be deposited in the Installment Payment Fund all Installment Payments and Prepayments received by the Trustee, including any moneys received by the Trustee for deposit therein pursuant to the Installment Sale Agreement, and any other moneys required to be deposited therein pursuant to the Installment Sale Agreement or pursuant to the Trust Agreement.

All amounts in the Installment Payment Fund shall be used and withdrawn by the Trustee solely for the purpose of paying principal, interest and redemption premiums (if any) with respect to the Certificates as the same shall become due and payable, in accordance with the provisions of the Trust Agreement.

Any surplus remaining in the Installment Payment Fund, after redemption and payment of all Certificates, including premiums, if any, and accrued interest (if any) and payment of any applicable fees, costs and expenses to the Trustee, or provision for such redemption or payment having been made to the satisfaction of the Trustee, shall be withdrawn by the Trustee and remitted to the District for deposit in the Water Fund of the District.

Moneys in Funds; Investment

Held in Trust. The moneys and investments held by the Trustee under this Trust Agreement are irrevocably held in trust for the benefit of the Owners of the Certificates, and for the purposes specified in the Trust Agreement, and such moneys, and any income or interest earned thereon, shall be expended only as provided in this Trust Agreement, and shall not be subject to levy or attachment or lien by or for the benefit of any creditor of either the Corporation, the Trustee (except as provided below) or the District or any Owner of Certificates, or any of them until after the Certificates have been paid in full.

Investments Authorized. Moneys held by the Trustee under the Trust Agreement shall, upon written order of a District Representative, be invested and reinvested by the Trustee in Permitted Investments. The Trustee may deem all investments directed by a District Representative as Permitted Investments without independent investigation thereof. If a District Representative shall fail to so direct investments, the Trustee shall hold such moneys uninvested. Such investments, if registrable, shall be registered in the name of and held by the Trustee or its nominee. The Trustee may purchase or sell to itself or any affiliate, as principal or agent, investments authorized by the Trust Agreement. Such investments and reinvestments shall be made giving full consideration to the time at which funds are required to be available. The Trustee may act as principal or agent in the making or disposing of any investment and make or dispose of any investment through its investment department or that of an affiliate and shall be entitled to its customary fees therefor. The Trustee is hereby authorized, in making or disposing of any investment permitted by the Trust Agreement, to deal with itself (in its individual capacity) or with one or more of its affiliates, whether it or such affiliate is acting as an agent of the Trustee or for any third person or dealing as principal for its own account. The Trustee may rely on the investment directions of the District Representative as to both the suitability and legality of the directed investments.

The District acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the District the right to receive brokerage confirmations of security transactions as they occur at no additional cost, the District specifically waives receipt of such confirmations to the extent permitted by law. The Trustee will furnish the District periodic cash transaction statements which include detail for all investment transactions made by the Trustee under the Trust Agreement.

Accounting. The Trustee shall furnish to the District a monthly accounting in statement form of all investments, transactions and disbursements made by the Trustee. The Trustee may commingle, at its sole discretion, any of the funds held by it pursuant to this Trust Agreement into a separate fund or funds for investment

purposes only; *provided, however*, that all funds or accounts held by the Trustee under the Trust Agreement shall be accounted for separately notwithstanding such commingling by the Trustee.

Allocation of Earnings. All interest or income received by the Trustee on investment of the Installment Payment Fund shall, prior to completion of the Project, be transferred to the Project Fund and thereafter shall be retained in the Installment Payment Fund and be applied as a credit against Installment Payments. All interest or income received by the Trustee on investment of the Installment Payment Fund shall as received, be retained in the Installment Payment Fund. Amounts retained or deposited in the Installment Payment Fund pursuant to this the Trust Agreement shall be applied as a credit against the Installment Payment due by the District pursuant to the Installment Sale Agreement on the Installment Payment Date following the date of deposit. All interest or income in the Delivery Costs Fund shall be retained in the Delivery Costs Fund until the Delivery Costs Fund is closed.

Amendments

The Trust Agreement and the rights and obligations of the Owners of the Certificates and the Installment Sale Agreement and the rights and obligations of the parties thereto, may be modified or amended at any time by a supplemental agreement which shall become effective when the written consent of the Owners of at least sixty percent (60%) in aggregate principal amount of the Certificates then Outstanding, exclusive of Certificates disqualified as provided in the Trust Agreement, shall have been filed with the Trustee. No such modification or amendment shall (1) extend or have the effect of extending the fixed maturity of any Certificate or reducing the interest rate with respect thereto or extending the time of payment of interest, or reducing the amount of principal thereof or reducing any premium payable upon the redemption thereof, without the express consent of the Owner of such Certificate, or (2) reduce or have the effect of reducing the percentage of Certificates required for the affirmative vote or written consent to an amendment or modification of the Installment Sale Agreement, or (3) modify any of the rights or obligations of the Trustee without its written assent thereto. Any such supplemental agreement shall become effective as provided in the Trust Agreement.

The Trust Agreement and the rights and obligations of the Owners of the Certificates and the Installment Sale Agreement and the rights and obligations of the parties thereto, may be modified or amended at any time by a supplemental agreement, without the consent of any such Owners, but only to the extent permitted by law and only (1) to add to the covenants and agreements of the Corporation or the District, (2) to cure, correct or supplement any ambiguous or defective provision contained in the Trust Agreement or in the Installment Sale Agreement and which shall not, in the opinion of nationally recognized bond counsel, adversely affect the interests of the Owners of the Certificates, (3) in regard to questions arising under the Trust Agreement or under the Installment Sale Agreement, as the parties thereto may deem necessary or desirable and which shall not, in the opinion of nationally recognized bond counsel, adversely affect the interests of the Owners of the Certificates; (4) to make such additions, deletions or modifications as may be necessary or appropriate to assure the exclusion from gross income for federal income tax purposes of the interest component of Installment Payments and the interest payable with respect to the Certificates, (5) to add to the rights of the Trustee, or (6) to maintain the rating or ratings assigned to the Certificates. Any such supplemental agreement shall become effective upon its execution and delivery by the parties thereto as the case may be.

The Trust Agreement and the Installment Sale Agreement may not be modified or amended at any time by a supplemental agreement which would modify any of the rights and obligations of the Trustee without its written assent thereto.

The Trustee may require an opinion of Independent Counsel that any amendment entered into under the Trust Agreement complies with the provisions of the Trust Agreement and the Trustee may rely conclusively on such opinion.

Certain Covenants

Compliance With and Enforcement of Installment Sale Agreement. The District and the Corporation covenant and agree with the Owners of the Certificates to perform all obligations and duties imposed on them under the Installment Sale Agreement and the Trust Agreement.

The District or the Corporation, immediately upon receiving or giving any notice or communication or other document in any way relating to or affecting their respective interests in the Project which may or can in any manner affect such interest, will deliver the same, or a copy thereof, to the Trustee.

The District will not do or permit anything to be done, or omit or refrain from doing anything, in any case where any such act done or permitted to be done, or any such omission of or refraining from action, would or might be a ground for cancellation or termination of the Installment Sale Agreement by the Corporation thereunder.

Payment of Taxes. The District will, subject to any right of challenge thereof, pay or cause to be paid all taxes, assessments and other governmental charges, if any, that may be levied, assessed or charged upon the Project or any part thereof, promptly as and when the same shall become due and payable; and the District will keep the Trustee advised in writing of such payments. The District will not suffer the Project, or any part thereof, to be sold for any taxes, assessments or other charges whatsoever, or to be forfeited therefor.

Observance of Laws and Regulations. The District will well and truly keep, observe and perform all valid and lawful obligations or regulations now or hereafter imposed on it with respect to the Water 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 hereafter acquired by the District with respect to the Water 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 shall promptly, upon request of the Trustee or any Certificate Owner holding at least 25% in principal amount of the Certificates 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 Project, whether now existing or hereafter developing 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 Certificate 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.

Continuing Disclosure. The District covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificates. Notwithstanding any other provision of the Trust Agreement, failure of the District to comply with the Continuing Disclosure Certificate shall not be considered an Event of Default; however, the Trustee, at the written direction of any Participating Underwriter or the holders of at least 25% aggregate principal amount of Outstanding Certificates, shall, but only to the extent moneys or other indemnity, satisfactory to the Trustee, has been furnished to the Trustee to hold it harmless from any loss, costs, liability or expense, including fees and expenses of its attorneys and any additional fees of the Trustee or any holder or beneficial owner of the Certificates may, take such actions as may be necessary and appropriate to compel performance, including seeking mandate or specific performance by court order.

Events of Default and Remedies

Assignment of Rights. Pursuant to the Assignment Agreement, the Corporation transfers, assigns and sets over to the Trustee all of the Corporation's rights under the Installment Sale Agreement, including without limitation the Corporation's rights to exercise such rights and remedies conferred on the Corporation pursuant to the Installment Sale Agreement as may be necessary or convenient (i) to enforce payment of the Installment Payments, Prepayments and any other amounts required to be deposited in the Installment Payment Fund or the Insurance and Condemnation Fund, and (ii) otherwise to exercise the Corporation's rights and take any action to protect the interests of the Trustee or the Certificate Owners in an Event of Default.

Remedies. If an Event of Default shall happen, then and in each and every such case during the continuance of such Event of Default, the Trustee may exercise any and all remedies available under the Trust Agreement pursuant to law or granted pursuant to the Installment Sale Agreement.

Upon the occurrence of an Event of Default, the Trustee may, and shall, at the written direction of the Owners of a majority of the principal amount of Certificates then Outstanding, by written notice to the District, declare the principal of the Installment Payments to be immediately due and payable, whereupon that portion of the

principal of the Installment Sale Agreement thereby coming due and the interest thereon accrued to the date of payment shall, without further action, become and be immediately due and payable, anything in the Trust Agreement or in the Installment Payments to the contrary notwithstanding.

Remedies shall be cumulative with respect to the Trustee and the Owners. If any remedial action is discontinued or abandoned, the Trustee and the Owners shall be restored to their former positions.

Application of Funds. All moneys received by the Trustee pursuant to any right given or action taken under the provisions of the Trust Agreement or of the Installment Sale Agreement, shall be applied by the Trustee in the order following upon presentation of the several Certificates and the stamping thereon of the payment if only partially paid or upon the surrender thereof if fully paid -

First, to the payment of the costs and expenses of the Trustee under the Trust Agreement (including, but not limited to, the fees, costs and expenses of itself and its counsel) and, after such payment to the Trustee, of the Certificate Owners in declaring such Event of Default, including reasonable compensation to its or their agents, attorneys and counsel (including the allocated costs of in-house counsel), together with interest on all such amounts advanced as provided in the Trust Agreement;

Second, to the payment of the whole amount then owing and unpaid with respect to the Certificates for principal and interest, with interest on the overdue principal and installments of interest at the rate or rates specified in the respective Certificates (but such interest on overdue installments of interest shall be paid only to the extent funds are available therefor following payment of principal and interest and interest on overdue principal, as aforesaid), and in case such moneys shall be insufficient to pay in full the whole amount so owing and unpaid with respect to the Certificates, then to the payment of such principal and interest without preference or priority of principal over interest, or of interest over principal, or of any installment of interest over any other installment of interest, ratably to the aggregate of such principal and interest.

Defeasance

If all Outstanding Certificates shall be paid and discharged in any one or more of the following ways:

(a) by well and truly paying or causing to be paid the principal with respect to and interest with respect to all Certificates Outstanding, as and when the same become due and payable;

(b) by depositing with the Trustee, in trust, at or before maturity, money which, together with the amounts then on deposit in the Installment Payment Fund, is fully sufficient to pay all Certificates Outstanding, including all principal and interest;

(c) by irrevocably depositing with the Trustee or an escrow agent (on terms satisfactory to the Trustee), in trust, cash or Defeasance Obligations in such amount as an independent nationally recognized certified public accountant shall determine in a written report delivered to the Trustee or escrow agent will, together with the interest to accrue thereon and moneys then on deposit in the Installment Payment Fund, if required, together with the interest to accrue thereon, be fully sufficient to pay and discharge all Certificates (including all principal and interest) at or before their respective maturity dates; or

(d) by depositing with the Trustee, under an escrow deposit and trust agreement, security for the payment of Installment Payments as more particularly described in the Installment Sale Agreement, said security to be held by the Trustee, as agent for District, and to be applied by the Trustee to Installment Payments representing the obligation of the District under the Installment Sale Agreement, as described in the Installment Sale Agreement;

notwithstanding that any Certificates shall not have been surrendered for payment, all rights under the Trust Agreement of the Owners of the Certificates and all obligations of the Corporation, the Trustee and the District under the Trust Agreement with respect to all Outstanding Certificates shall cease and terminate, except only the obligation of the Trustee to pay or cause to be paid, from Installment Payments paid by or on behalf of the District from deposits pursuant to paragraphs (b) through (d) above, to the Owners of the Certificates not so surrendered and paid all sums due with respect thereto, and in the event of deposits pursuant to paragraphs (b) through (d) above,

the Certificates shall continue to represent direct, undivided and fractional interests of the Owners thereof in Installment Payments under the Installment Sale Agreement.

Any funds held by the Trustee, at the time of one of the events described above in subsections (a) through (d) above, which are not required for the payment to be made to Owners, or for payments to be made to the Trustee by the District (including attorneys' fees, including those allocated to in-house counsel), shall be paid over to the District.

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APPENDIX B

**AUDITED FINANCIAL STATEMENTS OF
THE MID-PENINSULA WATER DISTRICT
FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2015**

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MID-PENINSULA
WATER DISTRICT

**MID-PENINSULA WATER DISTRICT
FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT**

**FOR THE FISCAL YEARS ENDED
JUNE 30, 2016 AND 2015**

JAMES MARTA & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS

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MID-PENINSULA WATER DISTRICT

BOARD OF DIRECTORS

JUNE 30, 2016

<u>Name</u>	<u>Office</u>	<u>Term Expires December</u>
Matthew Zucca	President	2019
Dave Warden	Vice President	2017
Albert Stuebing	Director	2017
Betty Linvill	Director	2017
Louis Vella	Director	2019

ADMINISTRATION

Tammy Rudock
General Manager

MID-PENINSULA WATER DISTRICT

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James Marta & Company LLP

Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Mid-Peninsula Water District
Belmont, California

Report on the Financial Statements

We have audited the accompanying Statement of Net Position of Mid-Peninsula Water District (the District) as of June 30, 2016 and 2015 and the related Statements of Revenues, Expenses and Changes in Net Position and Cash Flows for the years then ended and the related notes to the financial statement.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Mid-Peninsula Water District as of June 30, 2016 and 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplemental Information

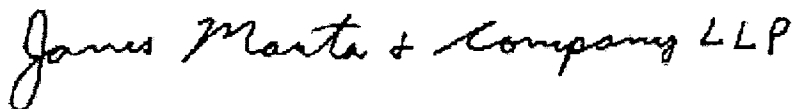
Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and Schedule of Funding Progress – Other Postemployment Benefits, Schedule of the District's Proportionate Share of the Net Pension Liability and Schedule of Pension Contributions 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 (GASB) 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 principally of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Change in Accounting Principle

Mid-Peninsula Water District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, in fiscal year 2014-15, which required a restatement of net position as of July 1, 2014. The effects of this restatement are described in Note 10 to the basic financial statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2016 on our consideration of Mid-Peninsula Water District's internal control over financial reporting and our tests of its compliance with 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Mid-Peninsula Water District's internal control over financial reporting and compliance.



James Marta & Company LLP
Certified Public Accountants
Sacramento, California
November 10, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

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MID-PENINSULA WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

This section of the Mid-Peninsula Water District's ("District") annual financial report presents a discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2016. It should be reviewed in conjunction with the District's basic financial statements for the fiscal year ended June 30, 2016.

FINANCIAL HIGHLIGHTS

- The District's Net Position increased by \$904,407 (5%) during the fiscal year ended June 30, 2016.
- The District's operating revenues increased from the previous year by \$789,980 (8%).
- Non-operating revenues decreased from the previous year by \$130,280 (-22%).
- Operating expenses increased by \$374,693 (4%).

The "Changes in Net Position" portion of the report details the various factors behind the highlights.

USING THIS ANNUAL REPORT

This annual report consists of two parts: Management's Discussion and Analysis and Financial Statements. The Financial Statements also include notes that explain in more detail some of the information contained in those statements.

Required Financial Statements

District financial statements report financial information about the District using accounting methods similar to those used by private sector companies, which include Generally Accepted Accounting Principles (GAAP). The Statement of Net Position included all District assets and liabilities, and provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the District, and assessing the liquidity and financial flexibility of the District.

All of the fiscal year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position. 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.

The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the District cash receipts, cash disbursements and net changes in cash resulting from operating, investing, and capital and noncapital financing activities.

MID-PENINSULA WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

FINANCIAL ANALYSIS OF THE DISTRICT

One of the most important questions asked about the District finances is whether or not the District's overall financial position has improved or deteriorated. The Statement of Net Position and the Statement of Revenues and Expenses and Changes in Net Position report information about the District activities in a way that responds to this question. The statement of the District's net position (the difference between assets and liabilities), is one measure of financial health or financial position. Over time, increases or decreases in District net position are one indicator of whether its financial health is improving or deteriorating. Other factors to consider include changes in economic conditions, population growth, and new or changed legislation.

Statement of Net Position

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>Amount Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>	<u>June 30, 2014</u>
Current and Other Assets	\$ 5,495,630	\$ 4,575,012	\$ 920,618	20%	\$ 5,617,101
Capital Assets, Net	16,801,357	16,348,917	452,440	3%	15,269,243
Total Assets	<u>22,296,987</u>	<u>20,923,929</u>	<u>1,373,058</u>	7%	<u>20,886,344</u>
Deferred Outflows	442,276	203,461	238,815	117%	-
Current and Other Liabilities	918,226	263,696	654,530	248%	476,804
Long-Term Liabilities	1,476,886	1,400,680	76,206	5%	252,043
Total Liabilities	<u>2,395,112</u>	<u>1,664,376</u>	<u>730,736</u>	44%	<u>728,847</u>
Deferred Inflows	195,448	218,718	(23,270)	-11%	-
Invested in Capital Assets, Net	16,801,357	16,348,917	452,440	3%	15,269,243
Unrestricted Net Position	3,347,346	2,895,379	451,967	16%	4,888,254
Total Net Position	<u>\$ 20,148,703</u>	<u>\$ 19,244,296</u>	<u>\$ 904,407</u>	5%	<u>\$ 20,157,497</u>

The District's net position at fiscal year end June 30, 2016 increased \$904,407 (5%) when compared to fiscal year end June 30, 2015. Factors contributing to this increase are due to an increase in the Meter Change-Out Program \$566,460; purchase of four (4) new Operations service vehicles \$107,985; Office equipment (copier) \$21,289; Computer and SCADA System replacement \$91,883; Pumps & Valves repairs and maintenance \$65,811; and various Construction in progress jobs \$557,268; Vacation and Sick time accruals increased by \$42,996; and Customer Deposits increased by \$359,162 due to new development. Depreciation Expense for the year was \$910,362 which reduced capital assets.

MID-PENINSULA WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

Changes in Net Position

Changes in the District's net position between fiscal year end June 30, 2016, and fiscal year end June 30, 2015, can be determined by reviewing the following condensed Statement of Revenue, Expenses, and Changes in Net Position.

Condensed Statement of Revenues, Expenses, and Changes in Net Position

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>Amount Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>	<u>June 30, 2014</u>
Operating Revenue	\$ 10,130,083	\$ 9,340,103	\$ 789,980	8%	\$ 9,814,351
Non-Operating Revenue	451,951	582,231	(130,280)	-22%	590,516
Total Revenues	<u>10,582,034</u>	<u>9,922,334</u>	<u>659,700</u>	7%	<u>10,404,867</u>
Operating Expenses	9,677,627	9,302,934	374,693	4%	8,993,013
Non-Operating Expenses	-	-	-	0%	-
Total Expenses	<u>9,677,627</u>	<u>9,302,934</u>	<u>374,693</u>	4%	<u>8,993,013</u>
Change in Net Position	<u>904,407</u>	<u>619,400</u>	<u>285,007</u>	46%	<u>1,411,854</u>
Net Position, Beginning - Original	19,244,296	20,157,497	(913,201)	-5%	18,745,643
Change in Accounting Principle	-	(1,532,601)	1,532,601	0%	-
Net Position, Beginning - Restated	<u>19,244,296</u>	<u>18,624,896</u>	<u>619,400</u>	3%	<u>18,745,643</u>
Net Position, Ending	<u>\$ 20,148,703</u>	<u>\$ 19,244,296</u>	<u>\$ 904,407</u>	5%	<u>\$ 20,157,497</u>

The District's Operating Revenues increased by \$789,980 (8%) due to various factors. Water revenues increased by \$230,492 (3%) and Fixed System Charges increased by \$386,455 (18.7%) primarily as a result of rate increases due to wholesale purchased water rate increases from the San Francisco Public Utilities Commission (SFPUC). MPWD development fees, which included Service Line & Installation Charges \$113,439 (100%), Water System Capacity Charges \$90,625 (100%), and Water Demand Offset Charges \$13,793 (100%) previously reported in the Miscellaneous Income category in past years.

The District's Non-Operating Revenues decreased by \$130,280 (-22%) due to the change in reporting of the fees discussed in the prior paragraph.

Operating Expenses increased by \$374,693 (4%) due to various factors:

- Salaries and benefits increased by \$34,442 (1.5%) primarily due to the hiring of the Operations Manager as follows: Salaries & Wages increased by \$111,765 (8.2%); Health Benefits increased by \$24,996 (5.2%); Uniform costs increased by \$9,944 (59.4%); OPEB Expense increased by \$100,296 (100%) and Net Pension Expense decreased by \$213,196 (-148.18%) due to second year reporting requirements (GASB 68).
- Maintenance and rehabilitation (M&R) expenditures decreased by \$1,569 (-0.3%)
- Purchased Water increased by \$330,346 (7.9%) as the result of a combination of the SFPUC's increased wholesale customer water rates and the District's reduced water purchases and water use reduction from water conservation achievements.

MID-PENINSULA WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

- Utilities decreased by \$45,305 (-14.5%) due to cost savings realized as a result of operating the pump stations during non-peak hours.
- Professional Services increased by \$77,694 (16.8%) primarily due to the 2015 Urban Water Management Plan and new Water Shortage Contingency Plan required by the state \$65,191 (100%); and Customer Billing increased by \$12,496 (20.8%) due to conservation messaging.
- Administrative and other costs decreased by \$18,297 (-2.8%) primarily due to a decrease in Liability Insurance costs by \$32,976 (-33.5%) and increase in Customer Credit Card Service Fees by \$12,377 (11.9%).
- Depreciation decreased by \$2,618 (-0.3%) due to assets fully depreciated during the year.

BUDGETARY HIGHLIGHTS

In its commitment to fiscal responsibility, the District timely adopted an annual budget for Fiscal Year 2015/2016 that projected revenues and expenditures for operations and capital improvements.

CAPITAL ASSETS

At June 30, 2016, the District had \$16,801,357 (net of accumulated depreciation) invested in capital assets. The following table is presented below to illustrate changes from the prior year:

	<u>June 30, 2015</u>	<u>June 30, 2015</u>	<u>Amount Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>	<u>June 30, 2014</u>
Land	\$ 1,045,264	\$ 1,045,264	\$ -	0%	\$ 1,045,264
Construction in Progress	557,268	74,588	482,680	647%	1,212,700
Utility Plant in Service	39,021,042	38,313,237	707,805	2%	36,710,048
Vehicles	1,685,412	1,577,427	107,985	7%	347,014
Computer System	256,462	192,131	64,331	33%	183,105
Capital Asset at Cost	42,565,448	41,202,647	1,362,801	3%	39,498,131
Less Accumulated Depreciation	(25,764,091)	(24,853,730)	910,361	4%	(24,228,888)
Capital Assets, Net	<u>\$ 16,801,357</u>	<u>\$ 16,348,917</u>	<u>\$ 452,440</u>	<u>3%</u>	<u>\$ 15,269,243</u>

RATES AND OTHER ECONOMIC FACTORS

The District is governed in part by provisions that require rate-based revenues must cover the costs of Operations, Maintenance and Repairs (OM&R) and capital improvement projects. The District is not subject to general economic conditions such as increases or reductions in property tax values or other types of revenues, such as sales taxes, that vary with economic conditions. Accordingly, the District sets its rates to its users to cover the costs of OM&R, capital improvement projects, plus any increments for known or anticipated changes in program costs.

MID-PENINSULA WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016

REQUESTS FOR FINANCIAL INFORMATION

This financial report is designed to provide our customers and creditors with a general overview of District finances, and demonstrate District fiscal accountability for the money it receives. If you have any questions about this report, or need additional financial information, please contact:

Tammy Rudock, General Manager
Mid-Peninsula Water District
3 Dairy Lane
Belmont, CA 94002
(650) 591-8941

BASIC FINANCIAL STATEMENTS

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MID-PENINSULA WATER DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2016 AND 2015

	2016	2015
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents (Note 2)	\$ 4,265,885	\$ 3,582,734
Accounts receivables	973,931	679,566
Materials and supplies	-	177,209
Prepaid expenses and other assets	255,814	135,503
Total Current Assets	5,495,630	4,575,012
Capital assets, net (Note 3)	16,801,357	16,348,917
TOTAL ASSETS	22,296,987	20,923,929
Deferred Outflows of Resources:		
Pension related(Note 4)	442,276	203,461
<u>LIABILITIES</u>		
Current Liabilities		
Accounts payable	206,936	185,507
Accrued expenses	493,293	46,879
Unearned revenue	217,997	31,310
Total Current Liabilities	918,226	263,696
Long-Term Liabilities		
Net pension liability (Note 4)	1,113,540	1,118,234
Net OPEB Liability (Note 6)	42,469	4,565
Compensated absences	320,877	277,881
TOTAL LIABILITIES	2,395,112	1,664,376
Deferred Inflows or Resources:		
Pension related (Note 4)	195,448	218,718
<u>NET POSITION</u>		
Invested in capital assets	16,801,357	16,348,917
Unrestricted	3,347,346	2,895,379
TOTAL NET POSITION	\$ 20,148,703	\$ 19,244,296

MID-PENINSULA WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION

FOR THE FISCAL YEARS ENDED
JUNE 30, 2016 AND 2015

	2016	2015
OPERATING REVENUES		
Water service charges	\$ 10,103,976	\$ 9,269,172
Other revenue	26,107	70,931
Total Operating Revenues	10,130,083	9,340,103
OPERATING EXPENSES		
Salaries and benefits	2,293,425	2,258,983
Maintenance and rehabilitation	528,314	529,883
Purchased water	4,491,156	4,160,810
Utilities	267,479	312,784
Professional services	539,376	461,682
Administrative and other	647,516	665,813
Depreciation	910,361	912,979
Total Operating Expenses	9,677,627	9,302,934
OPERATING INCOME (LOSS)	452,456	37,169
NON-OPERATING REVENUES (EXPENSES)		
Rent	170,763	194,681
Property taxes	266,341	259,597
Interest income	14,847	9,751
Completed projects	-	118,202
Total Non-Operating Revenues (Expenses)	451,951	582,231
CHANGE IN NET POSITION	904,407	619,400
NET POSITION, BEGINNING OF YEAR		
As originally reported	19,244,296	20,157,497
Prior period adjustment	-	(1,532,601)
NET POSITION, BEGINNING OF YEAR, As restated	19,244,296	18,624,896
NET POSITION, END OF YEAR	\$ 20,148,703	\$ 19,244,296

MID-PENINSULA WATER DISTRICT

STATEMENT OF CASH FLOWS

**FOR THE FISCAL YEARS ENDED
JUNE 30, 2016 AND 2015**

	2016	2015
Cash Flows From Operating Activities		
Receipts from customers and users	\$ 9,996,298	\$ 9,470,575
Other operating revenue	26,107	70,931
Payments to suppliers	(5,949,100)	(6,405,383)
Payments related to employees	(2,479,304)	(2,268,825)
Net Cash Flows Provided (Used) by Operating Activities	1,594,001	867,298
Cash Flows From Non-Capital Financing Activities		
Rent received	170,763	194,681
Property taxes received	266,341	259,597
Net Cash Flows Provided (Used) by Non-Capital Financing Activities	437,104	454,278
Cash Flows From Capital and Related Financing Activities		
Acquisition of capital assets	(1,362,801)	(2,332,175)
Cash received for completed projects	-	118,202
Net Cash Flows Provided (Used) by Capital & Related Activities	(1,362,801)	(2,213,973)
Cash Flows From Investing Activities		
Interest Income	14,847	9,751
Net Cash Flows Provided (Used) by Investing Activities	14,847	9,751
Net Increase (Decrease) in Cash	683,151	(882,646)
Beginning Cash and Equivalents	3,582,734	4,465,380
Ending Cash and Equivalents	\$ 4,265,885	\$ 3,582,734

The accompanying notes are an integral part of these financial statements.

MID-PENINSULA WATER DISTRICT

STATEMENT OF CASH FLOWS

FOR THE FISCAL YEARS ENDED
JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Reconciliation of Operating Income (loss) to Net Cash Provided (used) by Operating Activities		
Cash Flows from Operating Activities:		
Operating Income (Loss)	\$ 452,456	\$ 37,169
Adjustments to Reconcile Operating Income (loss) to Net Cash Provided (used) by Operations:		
Depreciation	910,361	912,979
(Increase) Decrease in:		
Accounts receivable	(294,365)	170,093
Materials and supplies	177,209	12,885
Prepaid expenses and other assets	(120,311)	(42,878)
Net OPEB asset	-	19,343
Deferred outflows	(238,815)	(203,461)
Increase (Decrease) in:		
Accounts payable	21,429	(236,866)
Accrued benefits	42,996	25,838
Net OPEB liability	37,904	4,565
Unearned revenue	186,687	31,310
Customer deposits	446,414	(7,552)
Net pension liability	(4,694)	(74,845)
Deferred inflows	(23,270)	218,718
	<u>\$ 1,594,001</u>	<u>\$ 867,298</u>
Net Cash Provided (used) by Operating Activities		

MID-PENINSULA WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

Mid-Peninsula Water District (the District) is a separate political subdivision of the State of California. The District was established on July 2, 1929 as the Belmont County Water District and changed its name effective July 1, 2000. The District maintains and operates a system of storage tanks and water mains. It purchases water from the San Francisco Public Utilities Commission for distribution to its customers through this system.

B. BASIS OF ACCOUNTING

The District is accounted for as an enterprise fund and its financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of the timing of related cash flows.

Operating revenues and expenses generally result from providing services in connection with the District's principal ongoing operations. The principal operating revenues of the District include water service charges. Operating expenses of the District include employee costs, water purchases, maintenance, utilities, and other administrative costs. All revenues and expenses not meeting this definition are reported as non-operating revenue and expense.

C. CASH AND CASH EQUIVALENTS

The District considers cash on hand, cash in banks and the Local Agency Investment Fund to be cash and cash equivalents.

D. ACCOUNTS RECEIVABLE

The District extends credit to customers in the normal course of operations. The District has not experienced any significant bad debt losses, however a small provision has been made for doubtful accounts and accounts receivable are shown net of the allowance for doubtful accounts.

E. MATERIALS AND SUPPLIES

Materials and supplies are stated at average cost. Inventories consist primarily of parts and supplies used to maintain the distribution system including mains, metering equipment and hydrants used for fire suppression within the District.

MID-PENINSULA WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

F. UNEARNED REVENUE

Contractors developing projects, which include construction of facilities to bring water from District mains into the project, deposit a construction advance with the District for an amount estimated to cover the District's costs related to the project. The District accounts for expenditures as construction in progress until the completion of the project, the final inspection and approval of the District, and then it is capitalized as part of capital assets. Revenues are recognized as the project progresses. At the completion of the project, any excess funds are returned to the contractor.

G. COMPENSATED ABSENCES

The District has a paid time off (PTO) policy in effect. It is the District's policy to permit employees to accumulate earned by unused vacation, sick leave and compensated time off. The District pays all earned PTO upon termination. All accumulated PTO is recorded as an expense and a liability at the time the benefit is earned.

H. CAPITAL ASSETS

Capital assets are recorded at cost, or if contributed, at estimated value at time of acquisition. Depreciation is recognized on buildings, furniture, fixtures, equipment and subsurface lines by the straight-line method over their estimated useful lives. Estimated useful lives are as follows:

Utility plant	10 - 50 years
Vehicles	5 years
Machinery and equipment	7 years
Computer system	5 years

District policy is to capitalize all assets, which cost \$5,000 or more, and to charge to current operations all additions under that cost limit. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend lives are also expensed in the current period.

I. REVENUES

Customer water meters are read on a monthly basis. Bills are rendered and income is recognized in the period in which meters are read. The District does not accrue income for water distributed but not yet billed at the end of the year. California state law requires water districts to report capacity charges collected and spent separately from operating revenue and expense and any fees unspent at year-end are shown in a separate equity fund. No capacity charges have been collected by the District.

MID-PENINSULA WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

J. PROPERTY TAXES

The District's property taxes are levied each calendar year on all taxable real property located in the District. Property taxes are recorded on an accrual basis of accounting. The County Assessor is responsible for assessment of all taxable real property within San Mateo County. Reassessment is on a three-year schedule established by the Assessor. The County Clerk computes the annual tax for each parcel of real property and prepares tax books used by the County Collector as the basis for issuing tax bills to all taxpayers in the County. Property taxes are collected by the County Collector and are submitted to the County Treasurer, who remits to each unit its respective share of the collections. Taxes levied in one year become due and payable in two installments during the following year generally on March 1st and August 30th. The first installment is an estimated bill, and is approximately one-half of the prior year's tax bill. The second installment is based on the current levy, assessment, equalization, and certificate to limit levy, if any and any changes from the prior year will be reflected in the second installment bill. Taxes must be levied by the last Tuesday in December for the following collection year. The levy becomes an enforceable lien against the property as of January 1st of the levy year.

K. INCOME TAXES

The District is a governmental entity and as such its income is exempt from taxation under Section 115(1) of the Internal Revenue Code and Section 23701d of the California and Taxation Code. Accordingly, no provision for federal or state income taxes has been made in the accompanying financial statements.

L. PENSIONS

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Mid-Peninsula Water District's California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

M. DEFERRED INFLOWS AND OUTFLOWS OF RESOURCES

In addition to assets, the statement of net position includes a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s), and as such will not be recognized as an outflow of resources (expense/expenditures) until then.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and as such, will not be recognized as an inflow of resources (revenue) until that time.

MID-PENINSULA WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

N. USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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 these estimates.

2. CASH AND INVESTMENTS

Cash and cash equivalents as of June 30, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Petty cash	\$ 400	\$ 400
Cash drawer	200	200
Cash in bank	211,307	193,003
Local Agency Investment Fund	<u>4,053,978</u>	<u>3,389,131</u>
Total Cash and Cash Equivalents	<u>\$ 4,265,885</u>	<u>\$ 3,582,734</u>

The carrying amount of the District's cash is covered by federal depository insurance up to \$250,000. Should deposits exceed the insured limits, the balance is covered by collateral held by the bank in accordance with California law requiring the depository bank to hold collateral equal to 110% of the excess government funds on deposit.

Local Agency Investment Fund

The District is a voluntary participant in Local Agency Investment Fund (LAIF), which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California and the Pooled Money Investment Board. The State Treasurer's Office pools these funds with those of other governmental agencies in the State and invests the cash. The fair value of the District's investment in this pool, which approximates cost, is reported in the accompanying financial statements based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Funds are accessible and transferable to the master account with twenty-four hour notice. The Pooled Money Investment Board has established policies, goals, and objectives to make certain that their goal of safety, liquidity, and yield are not jeopardized. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset backed securities, and floating rate securities issued by Federal Agencies, government-sponsored enterprises and corporations. The monies held in the LAIF are not subject to categorization by risk category. It is also not rated as to credit risk by a nationally recognized statistical rating organization. LAIF is administered by the State Treasurer and audited annually by the Pooled Money Investment Board and the State Controller's Office. Copies of this audit may be obtained from the State Treasurer's Office: 915 Capitol Mall, Sacramento, California 95814.

MID-PENINSULA WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

2. CASH AND INVESTMENTS (Continued)

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 monies held in the LAIF investment pool are not subject to categorization by risk category. It is also not rated as to credit risk by a nationally recognized statistical rating organization.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

3. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 is as follows:

	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016
Capital assets not subject to depreciation				
Land	\$ 1,045,264	\$ -	\$ -	\$ 1,045,264
Construction in progress	74,588	526,381	43,701	557,268
Total capital assets not subject to depreciation	1,119,852	526,381	43,701	1,602,532
Capital assets being depreciated				
Utility plant in service	38,313,237	707,805		39,021,042
Vehicles	1,577,427	107,985	-	1,685,412
Computer and telephone systems	192,131	64,331	-	256,462
Total capital assets being depreciated	40,082,795	880,121	-	40,962,916
Less accumulated depreciation for:				
Utility plant in service	(23,320,257)	(817,183)		(24,137,440)
Vehicles	(1,432,356)	(54,484)	-	(1,486,840)
Computer and telephone systems	(101,117)	(38,694)	-	(139,811)
Total accumulated depreciation	(24,853,730)	(910,361)	-	(25,764,091)
Total capital assets, net of depreciation	\$ 16,348,917	\$ 496,141	\$ 43,701	\$ 16,801,357

Depreciation for the year's ended June 30, 2016 and 2015 was \$910,361 and \$912,979, respectively.

MID-PENINSULA WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

4. EMPLOYEE RETIREMENT PLAN

A. Plan Description

All qualified permanent and probationary employees are eligible to participate in the Mid-Peninsula Water District's cost-sharing multiple employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plan is established by State statute and Mid-Peninsula Water District resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for the plan are applied as specified by the Public Employees' Retirement Law.

The Plans' provisions and benefits in effect at June 30, 2016, are summarized as follows:

Hire Date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2.7% @ 55	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 55	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 2.7%	1.0% to 2.5%
Required employee contribution rates	7.000%	6.250%
Required employer contribution rates	8.377%	6.555%

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Mid-Peninsula Water District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the years ended June 30, 2016 and 2015, the contributions recognized as part of pension expense for the Plan were \$210,583 and \$203,461, respectively.

MID-PENINSULA WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

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

As of June 30, 2016 and 2015, the Mid-Peninsula Water District reported net pension liabilities for its proportionate share of the net pension liability of \$1,113,540 and \$1,118,234, respectively.

Mid-Peninsula Water District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2016, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. Mid-Peninsula Water District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for the Plan as of June 30, 2015 and 2014 was as follows:

Proportion - June 30, 2015	0.04059%
Proportion - June 30, 2014	0.04525%
Change - Increase (Decrease)	-0.00466%

For the year ended June 30, 2016 and 2015, the District recognized pension expense of \$148,610 and \$143,873, respectively. The District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 210,583	
Difference between projected and actual experience	13,760	
Difference in actual vs. projected contributions	111,047	
Change in proportion	106,886	
Changes in assumptions		\$ (130,185)
Net differences between projected and actual earnings on plan investments		(65,263)
Total	\$ 442,276	\$ (195,448)

MID-PENINSULA WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

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

\$210,583 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

	Measurement Period Ended June 30		
	2016	\$ 11,967	
	2017	\$ 7,482	
	2018	\$ (15,902)	
	2019	\$ 32,698	
			<u>June 30, 2015</u>
		Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$	203,461	
Difference between proportionate share of aggregate employer contributions and actual contributions for 2013-14.			\$ 62,799
Change in employer's proportion and differences between proportionate share of contributions			(23,453)
Net differences between projected and actual earnings on plan investments			(258,064)
Total	<u>\$</u>	<u>203,461</u>	<u>\$ (218,718)</u>

\$203,461 reported as deferred outflows of resources related to contributions subsequent to the measurement date are recognized as a reduction of the net pension liability in the current year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

	Measurement Period Ended June 30	
	2015	\$ (50,464)
	2016	\$ (50,464)
	2017	\$ (53,274)
	2018	\$ (64,516)

MID-PENINSULA WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

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

Actuarial Assumptions – The total pension liabilities in the June 30, 2014 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost
Actuarial Assumptions	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth Rate	3.00%
Projected Salary Increase	Varies by Entry Age and Service
Investment Rate of Return (1)	7.50%
Mortality	Derived using CalERS' Membership Data for all Funds

(1) Net of pension plan investment expenses, including inflation

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2014 valuation were based on the CalPERS Experience Study for the period from 1997 to 2007. Further details of the Experience Study can be found on the CalPERS website.

Discount Rate – The discount rate used to measure the total pension liability was 7.65% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long term expected discount rate of 7.65 percent is applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained from the CalPERS website under the GASB 68 section.

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

MID-PENINSULA WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	Current Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	51.0%	5.25%	5.71%
Global Debt Securities	19.0%	0.99%	2.43%
Inflation Assets	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	-1.05%

(a) An expected inflation of 2.5% used for this period

(b) An expected inflation of 3.0% used for this period

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the District's proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	Discount Rate - 1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate + 1% (8.65%)
Plan's Net Pension Liability	\$ 1,867,484	\$ 1,113,540	\$ 491,071

MID-PENINSULA WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

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

Pension Plan Fiduciary Net Position – Detailed information about each pension plan’s fiduciary net position is available in the separately issued CalPERS financial reports.

C. Payable to the Pension Plan

The District had no outstanding amount of contributions to the pension plan required for the year ended June 30, 2016.

5. DEFERRED COMPENSATION PLAN

The District has established a deferred compensation plan in accordance with Internal Revenue Code Section 457, whereby employees may elect to defer portions of their compensation in a self-directed investment plan for retirement. Plan assets are invested in each individual's name with a deferred compensation plan provider. Distributions are made upon the participant's termination, retirement, death or total disability, and in a manner in accordance with the election made by the participant. All employees are eligible for plan participation. The District offers two plans, one with Lincoln Life and the other with ICMA-RC.

The District believes it has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The District has formally established a trust in accordance with Internal Revenue Code Section 457(g) to provide protection from the claims of the employer's general creditors. Accordingly deferred compensation assets placed in the trust are not reflected in these financial statements.

MID-PENINSULA WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

6. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

A. Plan Description

The District provides postemployment health care benefits for all employees who terminate or retire from the District after achieving age 55 with at least 20 years of service. For employees hired before June 28, 2008, District-paid benefits are available to eligible beneficiaries. The General Manager position qualifies for postemployment healthcare benefits after 7 ½ years of service with the District per the employment agreement.

B. Funding Policy

The District has an agreement with the Public Agency Retirement Services (PARS) to be the Trust Administrator to the PARS Public Agencies Post-Retirement Health Care Pan Trust. The amount to be contributed to the trust is determined annually by the board of directors.

C. Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) expense is calculated based on the annual required contributions (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the components of the District's Annual OPEB Cost for the fiscal year ended June 30, 2016, the amount actually contributed to the plan, and changes in the District's Net OPEB Obligation (Asset):

Annual required contribution	\$ 259,428
Interest on net OPEB obligation	251
Adjustment to annual required contribution	<u>(314)</u>
Annual OPEB cost (expense)	259,365
Contributions made	<u>(221,461)</u>
Change in net OPEB obligation (asset)	37,904
Net OPEB obligation (asset) - beginning of year	<u>4,565</u>
Net OPEB obligation (asset) - end of year	<u><u>\$ 42,469</u></u>

MID-PENINSULA WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

C. Annual OPEB Cost and Net OPEB Obligation (Continued)

The District's Annual OPEB Cost, the percentage of Annual OPEB Cost contributed to the plan, and the Net OPEB Obligation (Asset) are as follows:

Fiscal Year Ended	Annual OPEB Cost	Actual Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
June 30, 2016	\$ 259,365	\$ 221,461	85%	\$ 42,469
June 30, 2015	\$ 155,528	\$ 131,620	85%	\$ 4,565
June 30, 2014	\$ 151,033	\$ 147,344	98%	\$ (19,343)

D. Funding Status and Funding Progress

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 District are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

E. 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 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 methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The plan's most recent actuarial valuation was performed as of July 1, 2015. In that valuation, the Projected Unit Credit Cost Method was used. The actuarial assumptions included a 5.5% discount rate, and a medical trend assumption of 8.0% graded down by 1.0% per year to an ultimate rate of 5.0% after 3 years. These assumptions reflect an implicit 3.0 percent general inflation assumption. The District's unfunded actuarial accrued liability is being amortized as a level dollar amount on an open basis over 30 years.

MID-PENINSULA WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

7. JOINTLY GOVERNED ORGANIZATIONS

The District is a member of two jointly governed organizations. The District is a member of the Association of California Water Agencies Joint Powers Insurance Authority (ACWA JPIA) which provides employee benefits coverage for medical, dental, vision, life and disability. The District is also a member of Bay Area Water Supply & Conservation Agency (BAWSCA) which purchases water on a wholesale basis from the San Francisco regional water system for its members.

ACWA JPIA and BAWSCA are governed by a Board consisting of representatives from member agencies. The Board controls the operations, including selection of management and approval of operating budgets, independent of any influence by the member agencies beyond their representation on the Board. Each member agency pays a contribution or assessment commensurate with the level of coverage and services requested and shares surpluses and deficits proportionate to their participation in the joint powers authority. Full financial statements are available separately from ACWA JPIA and BAWSCA. Condensed information for ACWA JPIA and BAWSCA for the years ended September 30, 2015 and June 30, 2015, respectively, is as follows:

	ACWA JPIA September 30, 2015	BAWSCA June 30, 2015
Total Assets	\$ 194,775,717	\$ 375,097,424
Total Deferred Outflows	\$ 625,033	\$ 93,829
Total Liabilities	\$ 113,620,777	\$ 364,471,351
Total Deferred Inflows	\$ 846,155	\$ 110,720
Total Net Position	\$ 80,933,818	\$ 10,609,182
Total Revenues	\$ 160,400,697	\$ 30,668,976
Total Expenses	\$ 164,195,428	\$ 29,562,005
Change in Net Position	\$ (3,794,731)	\$ 1,106,971

MID-PENINSULA WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

8. COMMITMENTS

Purchase commitment

The District entered into an agreement with the City and County of San Francisco to purchase water to be delivered to the District's customers. This is a 25 year agreement that was effective July 1, 2009 and ends on June 30, 2034. The cost of purchasing water through this agreement represented approximately 45% and 44% of the District's operating costs for the years ended June 30, 2016 and 2015, respectively.

Operating lease

The District leased a copier under a 63 month term which expired in September 2015. Total lease payments for the years ended June 30, 2016 and 2015 were \$12,108 and \$53,957, respectively. The District purchased a new copier in July 2015 and did not renew the lease.

9. LEASE REVENUES

The District contracted with five different companies to lease land for communication towers on those properties and had one lease for an office building. The building lease was cancelled in December 2015. The remaining agreements are for multiple years and require monthly payments based on the contracted amounts. Lease revenues for the years ended June 30, 2016 and 2015 totaled \$170,763 and \$194,681, respectively. A schedule of future lease revenues was not available as of the date of these financial statements.

10. PRIOR PERIOD RESTATEMENT

The District understated the accumulated depreciation on certain assets in years prior to June 30, 2015. As a result we had to increase the beginning balance at July 1, 2014 for accumulated depreciation and decrease the beginning net position by \$339,522.

In addition, the District implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* for the year ended June 30, 2015. This statement established standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources and expenses related to the District's defined benefit pension plan described in Note 4. This change in accounting principle required a prior period adjustment in fiscal year 2014-15, which decreased the beginning net position by \$1,193,079.

MID-PENINSULA WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

11. SUBSEQUENT EVENTS

District management has evaluated its June 30, 2016 financial statements for subsequent events through November 10, 2016, the date the financial statements were available to be issued. Management is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

**REQUIRED SUPPLEMENTARY
INFORMATION**

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MID-PENINSULA WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS
OTHER POSTEMPLOYMENT BENEFITS

JUNE 30, 2016

Actuarial Valuation Date	Actuarial Accrued Liability (AAL) Entry Age (a)	Actuarial Value of Assets (b)	Unfunded Liability (UAAL) (a-b)	Funded Status (b/a)	Annual Covered Payroll (c)	UAAL as a % of payroll ([a-b]/c)
July 1, 2009	\$ 1,046,600	\$ -	\$ 1,046,600	0%	\$ 1,190,000	87.9%
July 1, 2012	\$ 1,517,700	\$ 257,000	\$ 1,260,700	17%	\$ 1,242,300	101.5%
July 1, 2015	\$ 2,452,610	\$ 432,917	\$ 2,019,693	18%	\$ 1,457,920	138.5%

MID-PENINSULA WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY

JUNE 30, 2016

	<u>June 30, 2015</u> ⁽¹⁾	<u>June 30, 2016</u>
Proportion of the net pension liability	0.01797%	0.01797%
Proportionate share of the net pension liability	\$ 1,118,234	\$ 1,113,540
Covered-employee payroll ⁽²⁾	\$ 1,178,386	\$ 1,457,920
Proportionate share of the net pension liability as percentage of covered-employee payroll	94.90%	76.38%
Plans fiduciary net position as a percentage of the total pension liability	77.06%	79.89%
Proportionate share of aggregate employer contributions ⁽³⁾	\$ 101,596	\$ 107,544

⁽¹⁾ Historical information is required only for measurement periods for which GASB 68 is applicable.

⁽²⁾ Covered-employee payroll represented above is based on pensionable earnings provided by the employer.

⁽³⁾ The plan's proportionate share of aggregate contributions may not match the actual contributions made by the employer during the measurement period. The plan's proportionate share of aggregate contributions is based on the plan's proportion of fiduciary net position shown on line 5 of the table above as well as any additional side fund (or unfunded liability) contributions made by the employer during the measurement period.

MID-PENINSULA WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS
JUNE 30, 2016

	Fiscal Year ⁽¹⁾	
	2013-14	2014-15
Actuarially Determined Contribution (2)	\$ 186,823	\$ 203,461
Contributions in relation to the actuarially determined contributions	(186,823)	(203,461)
Contribution deficiency (excess)	\$ -	\$ -
Covered-employee payroll (3,4)	\$ 1,178,386	\$ 1,457,920
Contributions as a percentage of covered-employee payroll (3)	15.85%	13.96%

(1) Historical information is required only for measurement periods for which GASB 68 is applicable.

(2) Employers are assumed to make contributions equal to the actuarially determined contributions (which is the actuarially determined contribution). However, some employers may choose to make additional contributions towards their side fund or their unfunded liability. Employer contributions for such plans exceed the actuarially determined contributions. CalPERS has determined that employer obligations referred to as "side funds" do not conform to the circumstances described in paragraph 120 of GASB 68, therefore are not considered separately financed specific liabilities.

(3) Covered-employee payroll represented above is based on pensionable earnings provided by the employer.

(4) Payroll from prior year was assumed to increase by the 3.00 percent payroll growth assumption.

OTHER INDEPENDENT AUDITOR'S REPORT

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James Marta & Company LLP

Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

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*

Independent Auditor's Report

Board of Directors
Mid-Peninsula Water District
Belmont, California

We have audited, 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, the financial statements of Mid-Peninsula Water District (the "District"), as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 10, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

Our consideration of internal control 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. Given these limitation, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

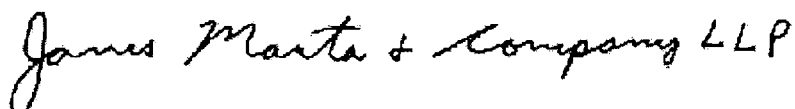
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District'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*.

We noted certain matters that we reported to management of the District in a separate letter dated November 10, 2016.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "James Marta & Company LLP". The signature is written in a cursive, flowing style.

James Marta & Company LLP
Certified Public Accountants
Sacramento, California
November 10, 2016

APPENDIX C

FORM OF FINAL OPINION OF SPECIAL COUNSEL

[Closing Date]

Board of Directors of the
Mid-Peninsula Water District
3 Dairy Lane
Belmont, California 94002

OPINION: \$20,000,000* Certificates of Participation (2016 Financing Project), Evidencing Direct, Undivided Fractional Interests of the Owners Thereof in Installment Payments to be Made by the Mid-Peninsula Water District (San Mateo County, California), As the Purchase Price for Certain Property Pursuant to an Installment Sale Agreement with the Public Property Financing Corporation of California

Members of the Board of Directors of the District:

We have acted as special counsel in connection with the delivery by the Mid-Peninsula Water District (the "District"), of its \$20,000,000* Installment Sale Agreement, dated as of December 1, 2016, by and between the Public Property Financing Corporation of California (the "Corporation") and the District (the "Installment Sale Agreement"), pursuant to the California Water Code. The Corporation has, pursuant to the Assignment Agreement, dated as of December 1, 2016 (the "Assignment Agreement"), by and between the Corporation and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), assigned certain of its rights under the Installment Sale Agreement, including its right to receive installment payments made by the District thereunder (the "Installment Payments"), to the Trustee. Pursuant to the Trust Agreement, dated as of December 1, 2016, by and among the Trustee, the Corporation and the District (the "Trust Agreement"), the Trustee has executed and delivered certificates of participation (the "Certificates") evidencing direct, undivided fractional interests of the owners thereof in the Installment Payments. We have examined the law and such certified proceedings and other papers as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the District contained in the Installment Sale Agreement and the Trust Agreement and in the certified proceedings and certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

Based upon our examination, we are of the opinion, under existing law, as follows:

1. The District is duly created and validly existing as a water district with the power to enter into the Installment Sale Agreement and the Trust Agreement and to perform the agreements on its part contained therein.
2. The Installment Sale Agreement has been duly authorized, executed and delivered by the District and is an obligation of the District valid, binding and enforceable against the District in accordance with its terms.
3. The Trust Agreement and the Assignment Agreement are valid, binding and enforceable in accordance with their terms.

* Preliminary, subject to change.

4. Subject to the terms and provisions of the Installment Sale Agreement, the Installment Payments to be made by the District are payable from a first and prior lien on Net Revenues of the Water System (as such terms are defined in the Installment Sale Agreement) on a parity with certain outstanding obligations. By virtue of the Assignment Agreement, the owners of the Certificates are entitled to receive their fractional share of the Installment Payments in accordance with the terms and provisions of the Trust Agreement.

5. Subject to the District's compliance with certain covenants, the portion of the Installment Payments designated as and comprising interest and received by the owners of the Certificates is excludable from gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the alternative minimum tax for individuals and corporations under the Internal Revenue Code of 1986, as amended, but we express no opinion as to whether the portion of the Installment Payments designated as and comprising interest is taken into account in computing adjusted current earnings which is used in determining the federal alternative minimum tax for certain corporations. Failure to comply with certain of such covenants could cause the portion of the Installment Payments designated as and comprising interest to be includable in gross income for federal income tax purposes retroactively to the date of delivery of the Certificates.

6. The portion of the Installment Payments designated as and comprising interest and received by the owners of the Certificates is exempt from personal income taxation imposed by the State of California.

Ownership of the Certificates may result in other tax consequences to certain taxpayers, and we express no opinion regarding any such collateral consequences arising with respect to the Certificates.

The rights of the owners of the Certificates and the enforceability of the Trust Agreement and the Installment Sale Agreement may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and also may be subject to the exercise of judicial discretion in accordance with general principles of equity.

With respect to the opinions expressed herein, the enforceability of the Installment Sale Agreement is subject to the limitations on the imposition of certain fees and charges by the District related to the Water System under Articles XIII C and XIII D of the California Constitution. In addition, the rights of the owners of the Certificates and the enforceability of the Trust Agreement and the Installment Sale Agreement may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and also may be subject to the exercise of judicial discretion in accordance with general principles of equity.

In rendering this opinion, we have relied upon certifications of the District and others with respect to certain material facts. Our opinion represents our legal judgment based upon such review of the law and the facts that we deem relevant to render our opinion and is not a guarantee of a result. This opinion is given as of the date hereof and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Respectfully submitted,

APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This CONTINUING DISCLOSURE CERTIFICATE (the “Disclosure Certificate”) is executed and delivered by the MID-PENINSULA WATER DISTRICT (the “District”) in connection with the execution and delivery of \$20,000,000* Mid-Peninsula Water District (San Mateo County, California) Certificates of Participation (2016 Financing Project) (the “Certificates”). The Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of December 1, 2016, by and among The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”), the District and the Public Property Financing Corporation of California (the “Trust Agreement”). Pursuant to Section 11.08 of the Trust Agreement, the District covenants and agree as follows:

Section 1. Definitions. In addition to the definitions set forth in the Trust Agreement, which apply to any capitalized term used in this Disclosure Certificate, unless otherwise defined in this Section 2, the following capitalized terms shall have the following meanings when used in this Disclosure Certificate:

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

“*Beneficial Owner*” shall mean any person who (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Certificates (including persons holding Certificates through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Certificates for federal income tax purposes.

“*Dissemination Agent*” shall mean IGServices or any successor Dissemination Agent designated in writing by the District and which has filed with the District a written acceptance of such designation. In the absence of such a designation, the District shall act as the Dissemination Agent.

“*EMMA*” or “*Electronic Municipal Market Access*” means the centralized on-line repository for documents to be filed with the MSRB, such as official statements and disclosure information relating to municipal bonds, notes and other securities as issued by state and local governments.

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

“*MSRB*” means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule, or any other repository of disclosure information which may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

“*Participating Underwriter*” shall mean any original underwriter of the Certificates required to comply with the Rule in connection with offering of the Certificates.

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

Section 2. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District for the benefit of the owners and Beneficial Owners of the Certificates and in order to assist the Participating Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

* Preliminary, subject to change.

Section 3. Provision of Annual Reports.

(a) *Delivery of Annual Report.* The District shall, or shall cause the Dissemination Agent to, not later than nine months after the end of the District's fiscal year (which currently ends on December 31), commencing with the report for the 2015-16 Fiscal Year, which is due not later than March 31, 2017, file with EMMA, in a readable PDF or other electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. The filed official statement for the Certificates shall satisfy the 2017 filing requirement. 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 Certificate; provided that the audited financial statements of the District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date.

(b) *Change of Fiscal Year.* If the District's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c), and subsequent Annual Report filings shall be made no later than nine months after the end of such new fiscal year end.

(c) *Delivery of Annual Report to Dissemination Agent.* Not later than fifteen (15) Business Days prior to the date specified in subsection (a) (or, if applicable, subsection (b)) of this Section 3 for providing the Annual Report to EMMA, the District shall provide the Annual Report to the Dissemination Agent (if other than the District). If by such date, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall notify the District.

(d) *Report of Non-Compliance.* If the District is the Dissemination Agent and is unable to file an Annual Report by the date required in subsection (a) (or, if applicable, subsection (b)) of this Section 3, the District shall send a notice to EMMA substantially in the form attached hereto as Exhibit A. If the District is not the Dissemination Agent and is unable to provide an Annual Report to the Dissemination Agent by the date required in subsection (c) of this Section 3, the Dissemination Agent shall send a notice to EMMA in substantially the form attached hereto as Exhibit A.

(e) *Annual Compliance Certification.* The Dissemination Agent shall, if the Dissemination Agent is other than the District, file a report with the District certifying that the Annual Report has been filed with EMMA pursuant to Section 3 of this Disclosure Certificate, stating the date it was so provided and filed.

Section 4. Content of Annual Reports. The Annual Report shall contain or incorporate by reference the following:

(a) *Financial Statements.* Audited financial statements of the District for the preceding fiscal year, prepared in accordance generally accepted accounting principles. If the District's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) *Other Annual Information.* To the extent not included in the audited final statements of the District, the Annual Report shall also include financial and operating data with respect to the District for preceding fiscal year, as follows:

- (1) Ten largest customers by revenue.
- (2) Ten largest customers by consumption.
- (3) Water rates.
- (4) Debt service coverage ratio.

(c) *Cross References.* Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which are available to the public on EMMA. The District shall clearly identify each such other document so included by reference.

If the document included by reference is a final official statement, it must be available from EMMA.

(d) *Further Information.* In addition to any of the information expressly required to be provided under paragraph (b) of this Section 4, 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.

Section 5. Reporting of Listed Events.

(a) *Reportable Events.* The District shall, or shall cause the Dissemination Agent (if not the District) to, give notice of the occurrence of any of the following events with respect to the Certificates:

- (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) Defeasances.
- (6) Rating changes.
- (7) Tender offers.
- (8) Bankruptcy, insolvency, receivership or similar event of the obligated person.
- (9) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security.

Note: For the purposes of the event identified in subparagraph (8), 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) *Material Reportable Events.* The District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Certificates, if material:

- (1) Non-payment related defaults.
- (2) Modifications to rights of security holders.
- (3) Bond calls.
- (4) The release, substitution, or sale of property securing repayment of the securities.
- (5) 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.

- (6) Appointment of a successor or additional trustee, or the change of name of a trustee.

(c) *Time to Disclose.* The District shall, or shall cause the Dissemination Agent (if not the District) to, file a notice of such occurrence with EMMA, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of any Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(5) and (b)(3) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to owners of affected Certificates under the Trust Agreement.

Section 6. Identifying Information for Filings with EMMA. All documents provided to EMMA under this Disclosure Certificate shall be accompanied by identifying information as prescribed by the MSRB.

Section 7. Termination of Reporting Obligation. The District's obligations under this Disclosure Certificate shall terminate upon the defeasance, prior redemption or payment in full of all of the Certificates. If such termination occurs prior to the final maturity of the Certificates, the District shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 8. Dissemination Agent.

(a) *Appointment of 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 Certificate and may discharge any such agent, with or without appointing a successor Dissemination Agent. If the Dissemination Agent is not the District, the Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to this Disclosure Certificate. It is understood and agreed that any information that the Dissemination Agent may be instructed to file with EMMA shall be prepared and provided to it by the District. The Dissemination Agent has undertaken no responsibility with respect to the content of any reports, notices or disclosures provided to it under this Disclosure Certificate and has no liability to any person, including any Certificate owner, with respect to any such reports, notices or disclosures. The fact that the Dissemination Agent or any affiliate thereof may have any fiduciary or banking relationship with the District shall not be construed to mean that the Dissemination Agent has actual knowledge of any event or condition, except as may be provided by written notice from the District.

(b) *Compensation of Dissemination Agent.* The Dissemination Agent shall be paid reasonable compensation by the District for its services provided hereunder in accordance with its schedule of fees as agreed to between the Dissemination Agent and the District from time to time and all reasonable expenses, legal fees and expenses and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall not be deemed to be acting in any fiduciary capacity for the District, owners or Beneficial Owners, or any other party. The Dissemination Agent may rely, and shall be protected in acting or refraining from acting, upon any direction from the District or an opinion of nationally recognized bond counsel. The Dissemination Agent may at any time resign by giving written notice of such resignation to the District. The Dissemination Agent shall not be liable hereunder except for its negligence or willful misconduct.

(c) *Responsibilities of Dissemination Agent.* In addition of the filing obligations of the Dissemination Agent set forth in Sections 3(e) and 5, the Dissemination Agent shall be obligated, and hereby agrees, to provide a request to the District to compile the information required for its Annual Report at least 30 days prior to the date such information is to be provided to the Dissemination Agent pursuant to subsection (c) of Section 3. The failure to provide or receive any such request shall not affect the obligations of the District under Section 3. The Dissemination Agent shall have no liability of any kind whatsoever to the Corporation, or any other person or entity, arising from or related to the failure of the Dissemination Agent to provide such request to the Corporation.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate (and the Dissemination Agent shall agree to any amendment so requested by the District that does not impose any greater duties or risk of liability on the Dissemination Agent), and any provision of this Disclosure Certificate may be waived, provided that all of the following conditions are satisfied:

(a) *Change in Circumstances.* If the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a) or (b), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Certificates, or the type of business conducted.

(b) *Compliance as of Issue Date.* The undertaking, as amended or taking into account such waiver, would, in the opinion of a nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Certificates, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances.

(c) *Consent of Holders; Non-impairment Opinion.* The amendment or waiver either (i) is approved by the Certificate owners in the same manner as provided in the Trust Agreement for amendments to the Trust Agreement with the consent of Certificate owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Certificate owners or Beneficial Owners.

If this Disclosure Certificate is amended or any provision of this Disclosure Certificate is waived, the District shall describe such amendment or waiver in the next following Annual Report and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the District. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(c), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate, any Certificate owner or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate. The sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and no implied covenants or obligations shall be read into this Disclosure Certificate against the Dissemination Agent, and the District agrees 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 powers and duties hereunder, including the reasonable costs and expenses (including attorneys' fees and expenses) of defending against any claim

of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have the same rights, privileges and immunities hereunder as are afforded to the Trustee under the Trust Agreement. The obligations of the District under this Section 12 shall survive resignation or removal of the Dissemination Agent and payment of the Certificates.

The Dissemination Agent agrees to accept and act upon instructions or directions pursuant to this Disclosure Certificate sent by unsecured e-mail, facsimile transmission or other similar unsecured electronic methods, provided, however, that, the Dissemination Agent shall have received an incumbency certificate listing persons designated to give such instructions or directions and containing specimen signatures of such designated persons, which such incumbency certificate shall be amended and replaced whenever a person is to be added or deleted from the listing. If the District or the City elects to give the Dissemination Agent e-mail or facsimile instructions (or instructions by a similar electronic method) and the Dissemination Agent in its discretion elects to act upon such instructions, the Dissemination Agent's understanding of such instructions shall be deemed controlling. The Dissemination Agent shall not be liable for any losses, costs or expenses arising directly or indirectly from the Dissemination Agent's reliance upon and compliance with such instructions notwithstanding such instructions conflict or are inconsistent with a subsequent written instruction. The District and the City agree: (i) to assume all risks arising out of the use of such electronic methods to submit instructions and directions to the Dissemination Agent, including without limitation the risk of the Dissemination Agent acting on unauthorized instructions, and the risk of interception and misuse by third parties; (ii) that it is fully informed of the protections and risks associated with the various methods of transmitting instructions to the Dissemination Agent and that there may be more secure methods of transmitting instructions than the method(s) selected by the District or the City; and (iii) that the security procedures (if any) to be followed in connection with its transmission of instructions provide to it a commercially reasonable degree of protection in light of its particular needs and circumstances.

Section 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriter and the owners and Beneficial Owners from time to time of the Certificates, and shall create no rights in any other person or entity.

Section 14. Governing Law. This Disclosure Certificate shall be governed by the laws of the state of California.

Date: [Closing Date]

MID-PENINSULA WATER DISTRICT

By _____
Authorized Officer

ACKNOWLEDGED:

IGSERVICES, as Dissemination Agent

By _____
Authorized Officer

EXHIBIT A

NOTICE TO MSRB OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Mid-Peninsula Water District

Name of Issue: Certificates of Participation (2016 Financing Project) Evidencing Direct, Undivided Fractional Interests of the Owners Thereof in Installment Payments to be Made by the Mid-Peninsula Water District (San Mateo County, California), As the Purchase Price for Certain Property Pursuant to an Installment Sale Agreement with the Public Property Financing Corporation of California

Date of Issuance: [Closing Date]

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report with respect to the above-named Issue as required by the Continuing Disclosure Certificate, dated [Closing Date], furnished by the District in connection with the Issue. The District anticipates that the Annual Report will be filed by _____.

Date: _____

IGSERVICES, as Dissemination Agent

By _____
Authorized Officer

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APPENDIX E

BOOK-ENTRY ONLY SYSTEM

The information in this Appendix E has been provided by The Depository Trust Company (“DTC”), New York, NY, for use in securities offering documents, and City takes no responsibility for the accuracy or completeness thereof. The District cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute the Beneficial Owners either (a) payments of interest, principal or premium, if any, with respect to the Certificates or (b) certificates representing ownership interest in or other confirmation of ownership interest in the Certificates, or that they will so do on a timely basis or that DTC, DTC Direct Participants or DTC Indirect Participants will act in the manner described in this Official Statement.

1. DTC will act as securities depository for the Certificates (the “Securities”). The Securities 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 Security certificate will be issued for each maturity of the Securities, in the aggregate principal amount of such issue, and will be deposited with DTC.

2. DTC, the world’s largest 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 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 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, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. 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 is rated AA+ by Standard & Poor’s. 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.

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC’s records. The ownership interest of each actual purchaser of each Security (“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 Securities 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 Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities 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 Securities with DTC and their registration in the name of Cede & Co. or such

other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; 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.

5. 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.

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

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

8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the issuer or the paying agent or bond trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the paying agent or bond trustee, or the issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the issuer or the paying agent or bond 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.

9. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the issuer or the paying agent or bond trustee. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

10. The issuer may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered.