

\$8,610,000

**PANOCHÉ FINANCING AUTHORITY
REVENUE BONDS (PANOCHÉ WATER DISTRICT),
SERIES 2021A**

\$8,545,000

**PANOCHÉ FINANCING AUTHORITY
REVENUE BONDS (PANOCHÉ WATER DISTRICT),
SERIES 2021B (TAXABLE)**

Dated: Date of Issuance**Due: As set forth on the inside cover**

The Panoche Financing Authority Revenue Bonds (Panoche Water District), Series 2021A are being issued to provide funds to (i) refinance the payment of the capital repayment obligations of the Panoche Water District payable to the United States through the Bureau of Reclamation and (ii) pay the costs of issuance for the 2021 Bonds. The payment of the remaining capital repayment obligations to the Bureau of Reclamation is a condition to the effectiveness of certain provisions of a perpetual contract for water service from the Central Valley Project entered into by the District and the United States of America, as further described herein. The Panoche Financing Authority Revenue Bonds (Panoche Water District), Series 2021B (Taxable) are being issued to provide funds to (i) pay certain settlement amounts to the Bureau of Reclamation and the San Luis & Delta-Mendota Water Authority and (ii) pay the costs of issuance for the 2021 Bonds. The 2021 Bonds are being issued pursuant to an Indenture of Trust, dated as of May 1, 2021, by and between the Authority and U.S. Bank National Association, as trustee.

Interest due on the 2021 Bonds is payable on each March 1 and September 1, commencing on March 1, 2022. The 2021 Bonds are being issued in fully registered book-entry form and initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York. Purchasers will not receive certificates representing their interest in the 2021 Bonds. Individual purchases of the 2021 Bonds will be in principal amounts of \$5,000 and integral multiples thereof. Payments of principal of and interest on the 2021 Bonds 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 2021 Bonds.

The 2021 Bonds are subject to optional, mandatory and extraordinary redemption, all as more fully described herein.

The 2021 Bonds are limited obligations of the Authority. The 2021 Bonds are payable from Authority Revenues and from certain other amounts on deposit in funds and accounts under the Indenture. Authority Revenues consist primarily of Series 2021 Installment Payments received by the Authority from the District pursuant to an Installment Purchase Agreement, dated as of May 1, 2021, by and between the District and the Authority. The obligation of the District to make the Series 2021 Installment Payments is a special obligation of the District payable from the Contractual Obligation Assessments and, in the event that the Contractual Obligation Assessments are insufficient to make the Series 2021 Installment Payments, from Net Revenues of the District's Water System, consisting of Revenues (not including the Contractual Obligation Assessment) remaining after the payment of Operation and Maintenance Costs.

No reserve fund has been created or funded to secure the 2021 Bonds.

The District cannot incur additional obligations payable from the Contractual Obligation Assessment other than refunding obligations. The District may incur additional obligations payable from Net Revenues (not including the Contractual Obligation Assessment) on a parity with the Series 2021 Installment Payments, subject to the terms and conditions of the 2021 Installment Purchase Agreement, as more fully described herein.

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA OR ANY PUBLIC AGENCY THEREOF OR ANY MEMBER OF THE AUTHORITY IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL AMOUNT OR REDEMPTION PRICE OF, OR INTEREST ON, THE 2021 BONDS. THE AUTHORITY HAS NO TAXING POWERS. THE 2021 BONDS DO NOT CONSTITUTE A DEBT, LIABILITY OR OBLIGATION OF THE STATE OF CALIFORNIA OR ANY PUBLIC AGENCY THEREOF (OTHER THAN THE AUTHORITY) OR ANY MEMBER OF THE AUTHORITY IN CONTRAVENTION OF ANY STATE OF CALIFORNIA CONSTITUTIONAL OR STATUTORY PROVISION.

MATURITY SCHEDULES – See Inside Cover Page

THE OBLIGATION OF THE DISTRICT TO MAKE THE SERIES 2021 INSTALLMENT PAYMENTS IS A SPECIAL OBLIGATION OF THE DISTRICT PAYABLE FROM THE PROCEEDS OF A VOTER-APPROVED SPECIAL BENEFIT ASSESSMENT WHICH IS LEVIED ON PORTIONS OF THE LAND LOCATED WITHIN THE DISTRICT (AS DESCRIBED HEREIN); AND IN THE EVENT THAT THE PROCEEDS OF THE CONTRACTUAL OBLIGATION ASSESSMENT ARE INSUFFICIENT TO MAKE THE SERIES 2021 INSTALLMENT PAYMENTS, FROM NET REVENUES OF THE DISTRICT'S WATER SYSTEM, CONSISTING OF REVENUES OF THE DISTRICT'S WATER SYSTEM REMAINING AFTER THE PAYMENT OF OPERATION AND MAINTENANCE COSTS OF THE DISTRICT'S WATER SYSTEM AND OTHER FUNDS DESCRIBED IN THE 2021 INSTALLMENT PURCHASE AGREEMENT, AND DOES NOT CONSTITUTE AN OBLIGATION OF THE DISTRICT FOR WHICH THE DISTRICT IS OBLIGATED TO PAY FROM ANY OTHER DISTRICT REVENUES OR 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 THE SERIES 2021 INSTALLMENT PAYMENTS UNDER THE 2021 INSTALLMENT PURCHASE AGREEMENT DOES NOT CONSTITUTE A DEBT OF THE DISTRICT OR OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described in this Official Statement, interest (and original issue discount) on the 2021A Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals. In the further opinion of Bond Counsel under existing statutes, regulations, rulings and judicial decisions, interest on the 2021B Bonds is not excluded from gross income for federal income tax purposes. In the further opinion of Bond Counsel, interest (and original issue discount) on the 2021 Bonds is exempt from State of California personal income tax.

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. INVESTORS ARE ADVISED TO READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION. Capitalized terms used and not defined on the cover of this Official Statement have the meanings ascribed thereto in this Official Statement.

The 2021 Bonds are offered when, as and if issued and received by the Underwriter, subject to the approval of the valid, legal and binding nature of the 2021 Bonds by Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, and certain other conditions. The Underwriter is being represented by its counsel, Kutak Rock LLP, Irvine, California. Certain legal matters will be passed upon for the District by Welty, Weaver & Currie, Healdsburg, California as General Counsel to the District, for the Authority by Welty, Weaver & Currie, Healdsburg, California as General Counsel to the Authority, for the District by Stradling Yocca Carlson & Rauth, a Professional Corporation, as Disclosure Counsel and for the Trustee by its counsel. It is anticipated that the 2021 Bonds will be available for delivery through the facilities of The Depository Trust Company on or about August 5, 2021.

Wells Fargo Securities

MATURITY SCHEDULES

\$8,610,000
PANOCHÉ FINANCING AUTHORITY
REVENUE BONDS (PANOCHÉ WATER DISTRICT),
SERIES 2021A

Base CUSIP[†]: 698507

\$2,240,000 4.00% 2021A Term Bond due September 1, 2043 – Yield 1.96% – Price 118.562^C CUSIP[†] AA8
\$6,370,000 4.00% 2021A Term Bond due September 1, 2051 – Yield 2.10% – Price 117.166^C CUSIP[†] AB6

^C Priced to optional redemption date of September 1, 2031 at par.

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MATURITY SCHEDULES

\$8,545,000
PANOCHÉ FINANCING AUTHORITY
REVENUE BONDS (PANOCHÉ WATER DISTRICT),
SERIES 2021B (TAXABLE)

Base CUSIP[†]: 698507

<i>Maturity Date</i>	<i>Principal Amount</i>	<i>Interest Rate</i>	<i>Yield</i>	<i>Price</i>	<i>CUSIP[†]</i>
March 1, 2022	\$ 300,000	0.882%	0.882%	100.000	AC4
September 1, 2022	365,000	0.932	0.932	100.000	AD2
September 1, 2023	370,000	1.182	1.182	100.000	AE0
September 1, 2024	375,000	1.408	1.408	100.000	AF7
September 1, 2025	380,000	1.553	1.553	100.000	AG5
September 1, 2026	390,000	1.853	1.853	100.000	AH3
September 1, 2027	395,000	2.006	2.006	100.000	AJ9
September 1, 2028	405,000	2.256	2.256	100.000	AK6
September 1, 2029	415,000	2.456	2.456	100.000	AL4
September 1, 2030	425,000	2.656	2.656	100.000	AM2
September 1, 2031	435,000	2.756	2.756	100.000	AN0

\$1,880,000 3.106% 2021B Term Bond due September 1, 2035 – Yield 3.106% – Price 100.000 CUSIP[†] AP5
\$2,410,000 3.571% 2021B Term Bond due September 1, 2040 – Yield 3.571% – Price 100.000 CUSIP[†] AQ3

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No dealer, broker, salesperson or other person has been authorized by the District, the Authority or the Underwriter to give any information or to make any representations other than those contained in this Official Statement in connection with the offering made hereby and, if given or made, such other information or representations must not be relied upon as having been authorized by the District, the Authority or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the 2021 Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the 2021 Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as a representation of facts.

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

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

The information and expression of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District since the date hereof.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2021 BONDS AT A LEVEL THAT MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE 2021 BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

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

THE 2021 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE 2021 BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

The District maintains a website. However, the information presented there is not part of this Official Statement and should not be relied upon in making an investment decision with respect to the 2021 Bonds. References to website addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such websites and the information or links contained therein are not incorporated into, and are not part of, this final official statement for purposes of, and as that term is defined in, Rule 15c2-12 promulgated under the Securities Exchange Act of 1934.

PANOCHE FINANCING AUTHORITY

BOARD OF DIRECTORS

John Bennett, Chair
Sue Redfern-West, Vice Chair
Mike Stearns, Secretary
Michael Linneman, Director
Ross Koda, Director

PANOCHE WATER DISTRICT

BOARD OF DIRECTORS

John Bennett, President
Sue Redfern-West, Vice President
Mike Stearns, Secretary
Michael Linneman, Director
Ross Koda, Director

DISTRICT STAFF

Ara Azhderian, General Manager

SPECIAL SERVICES

**General Counsel to the District
and the Authority**

Welty, Weaver & Currie
Healdsburg, California

Bond and Disclosure Counsel

Stradling Yocca Carlson & Rauth, a Professional Corporation
Sacramento, California

Municipal Advisor to the District

Fieldman Rolapp & Associates, Inc.
Irvine, California

Trustee

U.S. Bank National Association
Los Angeles, California

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SUMMARY STATEMENT

This summary is subject in all respects to the more complete information contained in this Official Statement, and the offering of the 2021 Bonds to potential investors is made only by means of the entire Official Statement. Capitalized terms used and not otherwise defined in this Summary Statement have the meanings ascribed thereto in this Official Statement.

Purpose. The 2021A Bonds are being issued to provide funds to (i) refinance the payment of the capital repayment obligations of the Panoche Water District payable to the United States through the Bureau of Reclamation, as more fully described under the captions “THE DISTRICT—District Water Supply—CVP Contract,” “—9(d) Contract” herein, and (ii) pay the costs of issuance for the 2021A Bonds, as more fully described herein. The payment of the remaining capital repayment obligations to the Bureau of Reclamation is a condition to the effectiveness of certain provisions of a perpetual contract for water service from the Central Valley Project entered into by the District and the United States of America, as more fully described herein.

The 2021B Bonds are being issued to provide funds to (i) pay certain settlement amounts to the Bureau of Reclamation and the San Luis & Delta-Mendota Water Authority as more fully described under the caption “THE DISTRICT—Recent Settlements” and (ii) pay the costs of issuance for the 2021B Bonds, as more fully described herein.

Contractual Obligation Assessment. On June 2, 2021, following a notice, hearing and majority affirmative vote of owners of land representing approximately 87% of the assessment, the Board authorized a benefit assessment up to \$60.00 per beneficial acre. Up to \$38.09 of such benefit assessment, the Contractual Obligation Assessment, will be assessed by the District on approximately 38,207 acres to pay the Series 2021 Installment Payments. The remaining \$21.91 of the authorized assessment may be assessed by the District for the purpose of financing capital improvement modernization projects for the benefit of the District. Proceeds of the Contractual Obligation Assessment will be applied by the District to the Series 2021 Installment Payments. See the caption “SECURITY FOR THE 2021 BONDS—General.” The Future Modernization Projects Assessment is not pledged to, nor will it be available for the payment of, the Series 2021 Installment Payments. See the caption “CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES—Proposition 218.”

Security for the 2021 Bonds. The 2021 Bonds are limited obligations of the Authority. The 2021 Bonds are payable from Authority Revenues and from certain other amounts on deposit in funds and accounts under the Indenture. The obligation of the District to make the Series 2021 Installment Payments is a special obligation of the District payable from the Contractual Obligation Assessment; and in the event that the proceeds of the Contractual Obligation Assessment are insufficient to make the Series 2021 Installment Payments, from Net Revenues of the District’s Water System, consisting of Revenues (not including the Contractual Obligation Assessment) remaining after the payment of Operating and Maintenance Costs. The obligation of the District to make the Series 2021 Installment Payments does not constitute an obligation of the District for which the District is obligated to levy or pledge any form of taxation or for which the District has levied or pledged any form of taxation. The obligation of the District to make the Series 2021 Installment Payments does not constitute a debt of the District, the State or any political subdivision thereof in contravention of any constitutional or statutory debt limitation or restriction.

The District may incur additional obligations payable from Net Revenues (not including the Contractual Obligation Assessment) on a parity with the Series 2021 Installment Payments, subject to the terms and conditions of the Series 2021 Installment Purchase Agreement, as more fully described herein. The District cannot incur additional obligations payable from the Contractual Obligation Assessment other than refunding obligations.

Rate Covenant Under the 2021 Installment Purchase Agreement. The 2021 Installment Purchase Agreement requires the District to levy and collect the Contractual Obligation Assessment in an amount equal to the lesser of: (i) the maximum amount provided by law in each year; or (ii) the amount of Series 2021 Installment Payments and any Refunding Obligations, including any reasonable coverage requirement to account for anticipated or unanticipated delinquencies, so long as any Series 2021 Installment Payments or Refunding Obligations remain Outstanding.

The 2021 Installment Purchase Agreement requires the District, to the fullest extent permitted by law, to fix and prescribe, at the commencement of each Fiscal Year, rates and charges (including land based charges) for the Water Service which are reasonably expected to be at least sufficient to yield during each Fiscal Year Net Revenues equal to one hundred twenty-five percent (125%) of the Debt on Bonds and Contracts for such Fiscal Year, after taking into account any amounts transferred from the 2021 Stabilization Fund to the Revenue Fund in accordance with the Indenture, and less, in the case of Series 2021 Installment Payments or any Refunding Obligations, the proceeds of the Contractual Obligation Assessment levied to pay Series 2021 Installment Payments and any Refunding Obligations for such Fiscal Year. Subject to certain conditions, amounts transferred from the Rate Stabilization shall be considered Revenues for purposes of the rate covenant, as more particularly described under the captions “—2021 Stabilization Fund” under “SECURITY FOR THE 2021 BONDS” herein.

The District may make adjustments from time to time in such rates and charges (including land based charges) and may make such classifications thereof as it deems necessary, but will not reduce the rates and charges (including land based charges) then in effect unless the Net Revenues from such reduced rates and charges (including land based charges) are reasonably expected to be sufficient to meet the foregoing requirements.

For avoidance of doubt, so long as the District has complied with its obligations described above, the failure of Net Revenues to meet the threshold described above at the end of the Fiscal Year will not constitute a default or an Event of Default so long as the District has complied with its obligations described above at the commencement of the succeeding Fiscal Year.

2021 Stabilization Fund. The 2021 Installment Purchase Agreement establishes a 2021 Stabilization Fund which is held by the District. The District may withdraw all or any portion of the amounts on deposit in the 2021 Stabilization Fund and transfer such amounts to the Revenue Fund for application in accordance with the 2021 Installment Purchase Agreement, or, in the event that all or a portion of the Series 2021 Installment Payments are discharged in accordance with the 2021 Installment Purchase Agreement, transfer all or any portion of such amounts for application in accordance with the 2021 Installment Purchase Agreement. The District will have approximately \$1,166,375 on deposit in the 2021 Stabilization Fund on the date of the initial issuance of the 2021 Bonds. For avoidance of doubt, the initial balance on deposit in the 2021 Stabilization Fund comprises money received by the District prior to Fiscal Year 2022 and such amount will not be deducted from Revenues for Fiscal Year 2022 or any prior Fiscal Year for purposes of the definition of Revenues or under the captions “—Rate Covenant” and “—Additional Contracts and Bonds Test” above. Amounts transferred from the 2021 Stabilization Fund to the Revenue Fund in accordance with the 2021 Installment Purchase Agreement may be taken into account as Revenues for purposes of the calculations to issue additional Bonds or execute additional Contracts described under “—Additional Indebtedness” and “SECURITY FOR THE 2021 BONDS—Additional Indebtedness Under the 2021 Installment Purchase Agreement.” below and for the calculations described under “—Rate Covenant Under the 2021 Installment Purchase Agreement” below. See the captions “SECURITY FOR THE 2021 BONDS—2021 Stabilization Fund.”

Subject to certain conditions, amounts transferred from the 2021 Stabilization Fund will be considered Revenues for purposes of the calculations to issue additional Bonds or execute additional Contracts payable from Net Revenues on a parity with the obligation to make the Series 2021 Installment Payments, as more particularly described under the captions “—2021 Stabilization Fund” under “SECURITY FOR THE 2021 BONDS” herein.

No Reserve Fund. No reserve fund has been created or funded to secure the 2021 Bonds.

Redemption. The 2021 Bonds are subject to optional, mandatory and extraordinary redemption as described herein.

The District. The District was formed in, and has operated continuously since, 1950 under the California Water District Law (being Division 13 of the California Water Code), for the purpose of furnishing irrigation water for agricultural use within the District. The District includes approximately 38,231 acres located on the west side of the San Joaquin Valley in northwestern Fresno and southwestern Merced Counties of which approximately 36,970 are irrigable. The Delta-Mendota Canal, the San Luis Canal and Interstate 5 pass through or are in proximity to the District. The District currently provides agricultural water to approximately 106 landowners and lessees.

The Authority. The Authority is a joint powers authority organized under the provisions of State law governing the joint exercise of powers, being Chapter 5, Division 7, Title 1 of the Government Code of the State and a Joint Exercise of Powers Agreement, dated October 13, 2020, by and between the District and the Panoche Drainage District, to provide for financing and refinancing on behalf of the District or Panoche Drainage District by exercising the powers referred to in the Joint Powers Agreement, and any other transaction authorized by law.

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\$8,610,000
PANOCHÉ FINANCING AUTHORITY
REVENUE BONDS (PANOCHÉ WATER DISTRICT),
SERIES 2021A

\$8,545,000
PANOCHÉ FINANCING AUTHORITY
REVENUE BONDS (PANOCHÉ WATER DISTRICT),
SERIES 2021B (TAXABLE)

INTRODUCTION

General. This Official Statement, including the cover page, the inside cover page and all appendices hereto, provides certain information concerning the sale and delivery of the Panoche Financing Authority Revenue Bonds (Panoche Water District), Series 2021A (the “2021A Bonds”) and the Panoche Financing Authority Revenue Bonds (Panoche Water District), Series 2021B (Taxable) (the “2021B Bonds” and, together with the 2021A Bonds, the “2021 Bonds”). The 2021 Bonds are being issued pursuant to an Indenture of Trust, dated as of May 1, 2021 (the “Indenture”), by and between the Panoche Financing Authority (the “Authority”) and U.S. Bank National Association, Los Angeles, California, as trustee (the “Trustee”). Descriptions and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive, and reference is made to each document for complete details of all terms and conditions. All statements herein are qualified in their entirety by reference to each document. Capitalized terms used and not otherwise defined herein have the meanings ascribed to them in Appendix C—“SUMMARY OF PRINCIPAL LEGAL DOCUMENTS” attached hereto.

Purposes of the 2021 Bonds. The 2021A Bonds are being issued to provide funds to (i) refinance the payment of the capital repayment obligations of the Panoche Water District (the “District”) payable to the United States through the Bureau of Reclamation (“Reclamation”) and (ii) pay the costs of issuance for the 2021A Bonds. The payment of the remaining capital repayment obligations to Reclamation is a requirement of a perpetual contract for water service from the Central Valley Project (“CVP”) entered into by the District and United States of America, as further described herein. See the caption “THE PROJECT” and “ESTIMATED SOURCES AND USES OF FUNDS.”

The 2021B Bonds are being issued to provide funds to (i) pay certain settlement amounts to Reclamation and the San Luis & Delta-Mendota Water Authority and (ii) pay the costs of issuance for the 2021B Bonds. See the caption “THE PROJECT” and “ESTIMATED SOURCES AND USES OF FUNDS.”

Authority for Issuance. The 2021 Bonds are being issued under the Indenture and the Marks-Roos Local Bond Pooling Act of 1985, as amended, constituting Article 4 of Chapter 5, Division 7, Title 1 of the Government Code of the State of California (the “State”). In connection with the authorization of the 2021 Bonds, the Authority adopted a resolution on January 12, 2021 (the “Authorizing Resolution”) approving the 2021 Bonds and the execution and delivery of the Indenture. On January 12, 2021, the District adopted a resolution authorizing and approving certain documents in connection with the issuance by the Authority of the 2021 Bonds.

Sources of Payment for the 2021 Bonds. The 2021 Bonds are limited obligations of the Authority. The 2021 Bonds are payable from Authority Revenues under the Indenture (the “Authority Revenues”) and from certain other amounts on deposit in funds and accounts under the Indenture. Authority Revenues consist primarily of payments (the “Series 2021 Installment Payments”) received from the District pursuant to an Installment Purchase Agreement, dated as of May 1, 2021 (the “2021 Installment Purchase Agreement”), by and between the District and the Authority. See the caption “SECURITY FOR THE 2021 BONDS—General.”

The 2021 Bonds do not constitute a charge against the general credit of the Authority. The 2021 Bonds are not secured by a legal or equitable pledge of, or charge or lien upon, any property of the Authority or any of its income or receipts except payments under the 2021 Installment Purchase Agreement and other moneys pledged by the Authority under the Indenture. Neither the faith and credit nor the taxing power of the State or any public agency thereof or any member of the Authority is pledged to the payment of the principal amount or redemption price of, or interest on, the 2021 Bonds. The Authority has no taxing power. The 2021

Bonds do not constitute a debt, liability or obligation of the State or any public agency thereof (other than the Authority) or any member of the Authority in contravention of any State constitutional or statutory provision.

The obligation of the District to make the Series 2021 Installment Payments is a special obligation of the District payable from proceeds of a voter-approved special benefit assessment (the “Contractual Obligation Assessment”) which is levied on all assessed lands within the District; and in the event that the proceeds of the Contractual Obligation Assessment are insufficient to make the Series 2021 Installment Payments, from Net Revenues (herein defined) of the Water System of the District and other funds described in the 2021 Installment Purchase Agreement, and does not constitute a debt of the District or of the State or any political subdivision thereof in contravention of any constitutional or statutory debt limitation or restriction. Net Revenues include Revenues (herein defined) of the Water System remaining after payment of Operation and Maintenance Costs (herein defined) of the District’s Water System. See Appendix C—“SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.”

No Reserve Fund. No reserve fund has been created or funded to secure the 2021 Bonds.

Additional Parity Obligations. Under the 2021 Installment Purchase Agreement, the District cannot incur additional obligations payable from the Contractual Obligation Assessment other than refunding obligations. Under the 2021 Installment Purchase Agreement, the District may incur additional obligations payable from Net Revenues on a parity with the Series 2021 Installment Payments, subject to the terms and conditions described under the caption “SECURITY FOR THE 2021 BONDS—Additional Indebtedness Under the 2021 Installment Purchase Agreement.”

The District. The District is a California water district duly organized and existing under the California Water District Law (codified at Division 13 of the California Water Code). The District has the powers under such Law to, among other things, provide water service (the “Water Service”) within its water service area. The District includes approximately 38,231 acres located on the west side of the San Joaquin Valley in northwestern Fresno and southwestern Merced Counties of which approximately 36,970 are irrigable. The Delta-Mendota Canal, the San Luis Canal and Interstate 5 pass through or are in proximity to the District. The District currently provides agricultural water to approximately 106 landowners and lessees.

The Authority. The Authority is a joint exercise of powers agency organized under the provisions of State law governing the joint exercise of powers, being Chapter 5, Division 7, Title 1 of the Government Code of the State (the “Act”) and a Joint Exercise of Powers Agreement, dated January 21, 2020 (the “Joint Powers Agreement”), by and between the District and the Panoche Drainage District (“PDD”), to provide for financing and refinancing on behalf of the District or PDD by exercising the powers referred to in the Joint Powers Agreement, and any other transaction authorized by law. See the caption “THE AUTHORITY.” The Board of Directors of the District serves as the board of directors for the Authority. Neither the 2021 Bonds nor the Series 2021 Installment Payments are obligations of PDD, and no portion of PDD revenues are pledged to, or will be available for, the payment of the 2021 Bonds or the Series 2021 Installment Payments.

Professionals Involved in the Offering. U.S. Bank National Association will act as Trustee with respect to the 2021 Bonds. The 2021 Bonds are offered when, as and if issued, subject to approval as to their legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, Sacramento, California, Bond Counsel, and certain other conditions. Certain legal matters will be passed on for the Underwriter by its counsel, Kutak Rock LLP, Irvine, California, for the District by Welty, Weaver & Currie, Healdsburg, California, as the General Counsel of the District, for the Authority by Welty, Weaver & Currie, Healdsburg, California, as General Counsel to the Authority, and for the Trustee by its counsel. See the caption “CERTAIN LEGAL MATTERS.” Fieldman, Rolapp & Associates, Inc. is acting as municipal advisor to the District. See the caption, “MUNICIPAL ADVISOR.”

Other Information About this Official Statement. The summaries and references to the Indenture, the 2021 Installment Purchase Agreement and all documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive, and each such summary or reference is

qualified in its entirety by reference to the full Indenture, Installment Purchase Agreement and each such document, statute, report or instrument, copies of which are available for inspection at the offices of the District in Firebaugh, California and will be available from the Trustee upon request and payment of duplication cost. All capitalized terms used herein and not normally capitalized have the meanings assigned to them in the Indenture and the 2021 Installment Purchase Agreement, the summaries of which are included in Appendix C, unless otherwise stated in this Official Statement. Unless otherwise indicated, all financial and statistical information herein has been provided by the District.

The District regularly prepares a variety of reports, including audits, budgets and related documents. Any registered owner of the 2021 Bonds (each, an “Owner”) may obtain a copy of such report, as available, from the Trustee or the District. Additional information regarding the Official Statement may be obtained by contacting the Trustee or Ara Azhderian, General Manager, Panoche Water District, 52027 W Althea Ave, Firebaugh, California 93622, Telephone: (209) 364-6136.

Changes Since the Date of the Preliminary Official Statement. Changes have been made in this Official Statement since the Preliminary Official Statement dated July 21, 2021, to revise the text under the captions “INVESTMENT CONSIDERATIONS—Natural Disasters and Seismic Conditions—*Drought*” in the forepart of this Official Statement and “PANOCHÉ WATER DISTRICT—Projected Water Sources” in Appendix A to reflect the adoption of an emergency regulation by the State Water Resources Control Board on August 3, 2021.

THE PROJECT

General

The proceeds of the sale of the 2021A Bonds will be used to provide funds to (i) refinance the payment of the capital repayment obligations of the District payable to Reclamation in connection with the execution and delivery of certain repayment contracts, as described under the captions “THE DISTRICT – District Water Supply- CVP Contract,” “- 9(d) Contract” herein and (ii) pay the costs of issuance for the 2021 Bonds. See “ESTIMATED SOURCES AND USES OF FUNDS.”

The proceeds of the sale of the 2021B Bonds will be used to provide funds to (i) pay certain settlement amounts to Reclamation and San Luis & Delta-Mendota Water Authority (the “Water Authority”), as described under the caption “THE DISTRICT – Recent Settlements” herein and (ii) pay the costs of issuance for the 2021 Bonds. See “ESTIMATED SOURCES AND USES OF FUNDS.”

Pursuant to the WIIN Act (herein defined), the United States and the District negotiated terms and conditions that converted the District’s interim renewal contract (Contract No. 14-06-200-7773A-IR6) to a repayment contract, and those terms and conditions are reflected in the 9(d) Contract (herein defined). The District executed and delivered the 9(d) Contract on December 28, 2020 and the 9(d) Contract became effective on July 1, 2021.

The 9(d) Contract has no termination date and remains in effect as long as the District pays applicable rates and charges and complies with the terms and conditions of the 9(d) Contract, consistent with applicable law. On or about the date of issuance of the 2021 Bonds, the District expects to apply a portion of the proceeds of the 2021A Bonds to pay the District’s then remaining capital repayment obligation, as provided under the 9(d) Contract. Upon payment of the capital repayment obligation, the 9(d) Contract will eliminate certain restrictions on delivery of water to lands that were ineligible to receive water because such lands constituted “excess lands” under federal reclamation law and certain pricing provisions of the federal reclamation law will no longer apply. For a discussion of the 9(d) Contract, see Appendix A—“PANOCHÉ WATER DISTRICT—District Water Supply—CVP Contract” and “—9(d) Contract.”

In accordance with the procedures set forth in Article XIID(4) of the State Constitution, the District sought the approval of District landowners to levy the Contractual Obligation Assessment on all assessed lands

within the District in order to provide a dedicated source of revenues to pay 2021 Installment Payments securing the 2021 Bonds. On June 2, 2021, following a notice, hearing and majority affirmative vote of owners of land representing approximately 87% of the assessment, the Board authorized a benefit assessment up to \$60.00 per beneficial acre. Up to \$38.09 of such benefit assessment, the Contractual Obligation Assessment, will be assessed by the District on approximately 38,207 acres to pay the Series 2021 Installment Payments. The remaining \$21.91 of the authorized assessment may be assessed by the District for the purpose of financing capital improvement modernization projects for the benefit of the District (the “Future Modernization Projects Assessment”). The Future Modernization Projects Assessment is not pledged to, nor will it be available for the payment of, the Series 2021 Installment Payments. See the caption “CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES—Proposition 218.” Proceeds of the Contractual Obligation Assessment will be applied by the District to the Series 2021 Installment Payments. See the caption “SECURITY FOR THE 2021 BONDS—General.”

The District and the United States entered into a Settlement Agreement on January 15, 2021. The key financial terms of the Settlement Agreement are that the District may be liable to the United States for up to \$8,261,361.00, not including interest (the “Settlement Amount”), for what the United States contends to be the District's unauthorized diversion of water from the Delta Mendota Canal and the San Luis Canal between 2009 and 2015. In the Settlement Agreement, the United States specifically contended that between on or about January 1, 2009, and April 20, 2015, the District diverted federally-owned water from the Delta-Mendota and San Luis Canals, and that the diversions were unauthorized and that the District did not compensate the United States Bureau of Reclamation for the diversions (collectively, the “Covered Conduct”). The District has made an initial payment of \$1,000,000.00 to the United States as required by the Settlement Agreement. The District intends to fund the remaining amount owed to the United States pursuant to the Settlement Agreement from proceeds of the 2021B Bonds. In addition, the District intends to reimburse itself the initial \$1,000,000.00 payment to the United States with proceeds of the 2021B Bonds.

The boards of directors of each of the Water Authority and the District have approved a settlement agreement relating to the Covered Conduct (the “Water Authority Settlement Agreement”). The Water Authority and the District executed the Water Authority Settlement Agreement and the Water Authority Settlement Agreement became effective on July 16, 2021. Under the terms of the Water Authority Settlement Agreement, the District has agreed to pay the Water Authority approximately \$1,100,000.00 in one lump sum payment for damages resulting from the Covered Conduct and related costs (the “Water Authority Settlement Payment”). The Water Authority Settlement Agreement releases the District from liability for certain costs related to the Covered Conduct specified in the Water Authority Settlement Agreement. The District expects to fund the lump sum payment to the Water Authority from proceeds of the 2021B Bonds.

See the caption “RECENT SETTLEMENTS” in Appendix C—“PANOCHE WATER DISTRICT.”

ESTIMATED SOURCES AND USES OF FUNDS

	<i>2021A Bonds</i>	<i>2021B Bonds</i>	<i>Total</i>
Sources			
Principal Amount	\$ 8,610,000.00	\$ 8,545,000.00	\$ 17,155,000.00
Plus Original Issue Premium	<u>1,509,263.00</u>	<u>0.00</u>	<u>1,509,263.00</u>
TOTAL	<u>\$ 10,119,263.00</u>	<u>\$ 8,545,000.00</u>	<u>\$ 18,664,263.00</u>
Uses			
Deposit to Acquisition Fund	\$ 9,868,031.00	\$ 8,291,682.20	\$ 18,159,713.20
Costs of Issuance ⁽¹⁾	<u>251,232.00</u>	<u>253,317.80</u>	<u>504,549.80</u>
TOTAL	<u>\$ 10,119,263.00</u>	<u>\$ 8,545,000.00</u>	<u>\$ 18,664,263.00</u>

⁽¹⁾ Includes fees for the Trustee, Bond Counsel, Municipal Advisor’s fees, legal fees, printing costs, rating agency fees, underwriter’s discount and other costs of delivery.

THE 2021 BONDS

Terms of the 2021 Bonds

The 2021A Bonds will be issued in the aggregate principal amount of \$8,610,000 and the 2021B Bonds will be issued in the aggregate principal amount of \$8,545,000. The 2021 Bonds will be dated as of the date of issuance. Interest on the 2021 Bonds is payable on each March 1 and September 1 (each an “Interest Payment Date”), commencing on March 1, 2022. The principal of and premium, if any, and interest on the 2021 Bonds is payable in lawful money of the United States of America. Interest will be paid by the Trustee by check mailed by the Trustee to the respective Owners thereof on the applicable Interest Payment Date at their addresses as they appear as of the close of business on the fifteenth day of the calendar month preceding the Interest Payment Date (the “Record Date”) in the registration books kept by the Trustee, except that in the case of an Owner of \$1,000,000 or more in aggregate principal amount of 2021 Bonds, such payment may, at such Owner’s option, be made by wire transfer of immediately available funds to an account in the United States in accordance with written instructions provided to the Trustee by such Owner prior to the Record Date.

Interest on the 2021 Bonds will accrue at the rates per annum and will mature on the dates set forth on the inside front cover page of this Official Statement. Interest on the 2021 Bonds will be calculated on the basis of a 360-day year composed of twelve 30-day months. Individual purchases will be made in principal amounts of \$5,000 and integral multiples thereof.

Principal of and premium (if any) on the 2021 Bonds is payable by check of the Trustee upon presentation and surrender of such Bond at maturity or prior redemption thereof at the Office of the Trustee.

Redemption of the 2021 Bonds

Optional Redemption of the 2021A Bonds. The 2021A Bonds with stated maturities on or after September 1, 2043, will be subject to redemption prior to their respective stated maturities, as a whole or in part as directed by the Authority in a Request provided to the Trustee at least thirty-five (35) days (or such lesser number of days acceptable to the Trustee in the reasonable judgment of the Trustee, such notice for the convenience of the Trustee) and by lot within each maturity in integral multiples of \$5,000, on September 1, 2031 or any date thereafter at a Redemption Price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption, without premium.

Optional Redemption of the 2021B Bonds. The 2021B Bonds with a stated maturity of September 1, 2035, will be subject to redemption prior to their respective stated maturities, as a whole or in part as directed by the Authority in a Request provided to the Trustee at least thirty-five (35) days (or such lesser number of days acceptable to the Trustee in the reasonable judgment of the Trustee, such notice for the convenience of the Trustee) and by lot within each maturity in integral multiples of \$5,000, on September 1, 2027 or any date thereafter at a Redemption Price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption, without premium.

The 2021B Bonds with a stated maturity of September 1, 2040, will be subject to redemption prior to their respective stated maturities, as a whole or in part as directed by the Authority in a Request provided to the Trustee at least thirty-five (35) days (or such lesser number of days acceptable to the Trustee in the reasonable judgment of the Trustee, such notice for the convenience of the Trustee) and by lot within each maturity in integral multiples of \$5,000, on September 1, 2031 or any date thereafter at a Redemption Price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption, without premium.

Optional Redemption of the 2021B Bonds with Make-Whole Payments. The 2021B Bonds with a stated maturity of September 1, 2035 will be subject to redemption prior to September 1, 2027, and the 2021B Bonds with a stated maturity of September 1, 2040 will be subject to redemption prior to September 1, 2031, at the option of the Authority, as a whole or in part on any Business Day in the order of maturity as directed by the Authority in a written request provided to the Trustee at least thirty-five (35) days (or such lesser number

of days acceptable to the Trustee in the reasonable judgment of the Trustee, such notice for the convenience of the Trustee) prior to such date and by lot within each maturity in integral multiples of \$5,000, at the “Make-Whole Redemption Price.”

“Make-Whole Redemption Price” means the greater of (1) 100% of the principal amount of the 2021B Bonds being redeemed, and (2) the sum of the present values of the remaining unpaid scheduled payments of principal and interest on any 2021B Bonds being redeemed, not including any portion of those payments of interest accrued and unpaid to the date of redemption, discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate (as defined below) plus 25 basis points; plus, in each case, accrued and unpaid interest on the 2021B Bonds to be redeemed on the redemption date.

The “Treasury Rate” is, as of any redemption date, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical H.1 (519) that has become publicly available at least two (2) Business Days prior to the redemption date (excluding inflation indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to the maturity date of the 2021B Bonds to be redeemed. However, if the period from the redemption date to such maturity date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used.

Mandatory Redemption of the 2021A Bonds. The 2021A Bonds with stated maturities on September 1, 2040 are subject to mandatory sinking fund redemption in part (by lot) on September 1, 2043 and each September 1 thereafter, in integral multiples of \$5,000 at a Redemption Price of the principal amount thereof plus accrued interest to the date fixed for redemption, without premium, in accordance with the following schedule:

<i>Redemption Date (September 1)</i>	<i>Principal Amount</i>
2040	\$330,000
2041	610,000
2042	635,000
2043*	665,000

* Maturity.

The 2021A Bonds with stated maturities on September 1, 2051 are subject to mandatory sinking fund redemption in part (by lot) on September 1, 2044 and each September 1 thereafter, in integral multiples of \$5,000 at a Redemption Price of the principal amount thereof plus accrued interest to the date fixed for redemption, without premium, in accordance with the following schedule:

<i>Redemption Date (September 1)</i>	<i>Principal Amount</i>
2044	\$690,000
2045	720,000
2046	745,000
2047	780,000
2048	810,000
2049	840,000
2050	875,000
2051*	910,000

* Final Maturity.

Mandatory Redemption of the 2021B Bonds. The 2021B Bonds with stated maturities on September 1, 2035 are subject to mandatory sinking fund redemption in part (by lot) on September 1, 2032 and each September 1 thereafter, in integral multiples of \$5,000 at a Redemption Price of the principal amount thereof plus accrued interest to the date fixed for redemption, without premium, in accordance with the following schedule:

<i>Redemption Date (September 1)</i>	<i>Principal Amount</i>
2032	\$450,000
2033	465,000
2034	475,000
2035*	490,000

* Maturity.

The 2021B Bonds with stated maturities on September 1, 2040 are subject to mandatory sinking fund redemption in part (by lot) on September 1, 2036 and each September 1 thereafter, in integral multiples of \$5,000 at a Redemption Price of the principal amount thereof plus accrued interest to the date fixed for redemption, without premium, in accordance with the following schedule:

<i>Redemption Date (September 1)</i>	<i>Principal Amount</i>
2036	\$510,000
2037	530,000
2038	545,000
2039	565,000
2040*	260,000

* Final Maturity.

Extraordinary Redemption of the 2021 Bonds from Insurance or Eminent Domain Proceeds. The 2021 Bonds will be subject to extraordinary redemption prior to their respective stated maturities, as a whole or in part on any date in the order of maturity and within maturities as directed by the Authority in a Request provided to the Trustee at least thirty-five (35) days (or such lesser number of days acceptable to the Trustee in the reasonable judgment of the Trustee, such notice for the convenience of the Trustee) prior to such date in integral multiples of \$5,000 from Net Proceeds, upon the terms and conditions of, and as provided for in, the 2021 Installment Purchase Agreement, at a Redemption Price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption, without premium.

Notice of Redemption

Notice of redemption must be mailed by first class mail not less than twenty (20) days nor more than sixty (60) days before any Redemption Date, to the respective Owners of any 2021 Bonds that are designated for redemption at their addresses appearing on the Registration Books, to the Securities Depositories and the Information Services. Each notice of redemption must state the date of notice, the redemption date, the place or places of redemption and the Redemption Price, and will designate the maturities, CUSIP numbers, if any, and, in the case of 2021 Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice will also state that on the redemption date there will become due and payable on each of said 2021 Bonds or parts thereof that are designated for redemption the Redemption Price thereof or of said specified portion of the principal thereof in the case of a 2021 Bond to be redeemed in part only, together with interest accrued thereon to the redemption date, and that (provided that moneys for redemption have been deposited with the Trustee) from and after such redemption date interest thereon will cease to accrue, and will require that such 2021 Bonds be then surrendered to the Trustee. Neither the failure to receive such notice nor any defect in the notice or the mailing thereof will affect the validity of the redemption of any 2021 Bond. Notice of redemption of 2021 Bonds will be given by the Trustee, at the expense of the Authority, for and on behalf of the Authority.

With respect to any notice of optional redemption of 2021 Bonds, such notice may state that such redemption shall be conditional upon the receipt by the Trustee on or prior to the date fixed for such redemption of moneys that are sufficient to pay the principal of, premium, if any, and interest on such 2021 Bonds to be redeemed and that, if such moneys have not been so received, said notice will be of no force and effect and the Trustee will not be required to redeem such Bonds. In the event that such notice of redemption contains such a condition and such moneys are not so received, the redemption will not be made, and the Trustee will within a reasonable time thereafter give notice, in the manner in which the notice of redemption was given, that such moneys were not so received.

Selection of 2021 Bonds for Redemption

Whenever provision is made in the Indenture for the redemption of less than all of 2021 Bonds, the Trustee shall select the 2021 Bonds for redemption as a whole or in part on any date as directed by the Authority and by lot within each maturity in integral multiples of \$5,000 as described above under the caption “THE 2021 BONDS—Redemption of the 2021 Bonds”. The Trustee will promptly notify the Authority in writing of the numbers of the 2021 Bonds or portions thereof so selected for redemption.

Notwithstanding anything in the Indenture to the contrary, whenever provision is made in the Indenture for the redemption of less than all of the 2021B Bonds, if the 2021B Bonds are registered in book-entry only form and so long as DTC or a successor securities depository is the sole registered owner of the 2021B Bonds, if less than all of the 2021B Bonds of a maturity are called for prior optional redemption, the particular 2021B Bonds or portions thereof to be redeemed shall be selected on a “Pro Rata Pass-Through Distribution of Principal” basis in accordance with DTC procedures, provided that, so long as the 2021B Bonds are held in book-entry form, the selection for redemption of such 2021B Bonds shall be made in accordance with the operational arrangements of DTC then in effect and if the DTC operational arrangements do not allow redemption on a Pro Rata Pass Through Distribution of Principal basis, the 2021B Bonds will be selected for redemption in accordance with DTC procedures by lot and in integral multiples of \$5,000.

Partial Redemption of 2021 Bonds

Upon surrender of any 2021 Bond redeemed in part only, the Authority will execute and the Trustee will authenticate and deliver to the Owner thereof, at the expense of the Authority, a new 2021 Bond or 2021 Bonds of authorized denominations equal in aggregate principal amount to the unredeemed portion of the 2021 Bonds surrendered and of the same series, interest rate and maturity.

Effect of Redemption of 2021 Bonds

Notice of redemption having been duly given as provided under the Indenture, and moneys for payment of the redemption price of, together with interest accrued to the date fixed for redemption on, the 2021 Bonds (or portions thereof) so called for redemption being held by the Trustee, on the redemption date designated in such notice, the 2021 Bonds (or portions thereof) so called for redemption being held by the Trustee, on the redemption date designated in such notice, the 2021 Bonds (or portions thereof) so called for redemption will become due and payable, interest on the 2021 Bonds so called for redemption will cease to accrue, said 2021 Bonds (or portions thereof) will cease to be entitled to any benefit or security under the Indenture, and the Owners of said 2021 Bonds will have no rights in respect thereof except to receive payment of the redemption price thereof. The Trustee will, upon surrender for payment of any of the 2021 Bonds to be redeemed on their Redemption Dates, pay such 2021 Bonds at the Redemption Price. All 2021 Bonds redeemed pursuant to the provisions of an Indenture shall be canceled upon surrender thereof.

Book-Entry Only System

One fully-registered 2021 Bond for each maturity will be issued in the principal amount of such 2021 Bond. Such 2021 Bonds will be registered in the name of Cede & Co. and will be deposited with DTC.

The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, the 2021 Bonds will be printed and delivered and will be governed by the provisions of the Indenture with respect to payment of principal and interest and rights of exchange and transfer.

The District cannot and does not give any assurances that DTC participants or others will distribute payments with respect to the 2021 Bonds received by DTC or its nominee as the registered Owner, or any redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or that DTC will service and act in the manner described in this Official Statement. See Appendix E hereto for additional information concerning DTC.

Transfers and Exchanges Upon Termination of Book-Entry Only System

Any 2021 Bond may, in accordance with its terms, be transferred on the Registration Books by the person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of such 2021 Bond at the Office of the Trustee for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form acceptable to the Trustee. The Trustee shall not be required to register the transfer of any 2021 Bond during the period in which the Trustee is selecting 2021 Bonds for redemption and any 2021 Bond that has been selected for redemption.

Whenever any 2021 Bond or 2021 Bonds shall be surrendered for transfer, the Authority will execute and the Trustee will authenticate and deliver a new 2021 Bond or 2021 Bonds of authorized denomination or denominations for a like series and aggregate principal amount of the same maturity. The Trustee will require the Owner requesting such transfer to pay any tax or other governmental charge that is required to be paid with respect to such transfer. Following any transfer of 2021 Bonds, the Trustee will cancel and destroy the 2021 Bonds that it has received.

2021 Bonds may be exchanged at the Office of the Trustee for a like aggregate principal amount of other authorized denominations of the same series and maturity. The Trustee will not be required to exchange any 2021 Bond during the period in which the Trustee is selecting 2021 Bonds for redemption and any 2021 Bond that has been selected for redemption. The Trustee will require the Owner requesting such exchange to pay any tax or other governmental charge that is required to be paid with respect to such exchange. Following any exchange of 2021 Bonds, the Trustee will cancel and destroy the 2021 Bonds that it has received.

PANOCHE WATER DISTRICT PAYMENT SCHEDULE

Set forth on the following page is a schedule of the Series 2021 Installments Payments relating to each series of the 2021 Bonds for the period ending on the last day of February in each of the years indicated:

<i>Last day of February</i>	<i>2021A Bonds</i>		<i>2021B Bonds</i>		<i>Total</i>
	<i>Principal Component of Series 2021 Installment Payments</i>	<i>Interest Component of Series 2021 Installment Payments</i>	<i>Principal Component of Series 2021 Installment Payments</i>	<i>Interest Component of Series 2021 Installment Payments</i>	
2022	\$ --	\$ 197,073.33	\$ 300,000	\$ 128,070.60	\$ 625,143.93
2023	--	344,400.00	365,000	219,465.80	928,865.80
2024	--	344,400.00	370,000	215,578.20	929,978.20
2025	--	344,400.00	375,000	210,751.50	930,151.50
2026	--	344,400.00	380,000	205,160.80	929,560.80
2027	--	344,400.00	390,000	198,596.75	932,996.75
2028	--	344,400.00	395,000	191,021.55	930,421.55
2029	--	344,400.00	405,000	182,491.30	931,891.30
2030	--	344,400.00	415,000	172,826.70	932,226.70
2031	--	344,400.00	425,000	162,086.50	931,486.50
2032	--	344,400.00	435,000	150,448.20	929,848.20
2033	--	344,400.00	450,000	137,465.40	931,865.40
2034	--	344,400.00	465,000	123,255.45	932,655.45
2035	--	344,400.00	475,000	108,657.25	928,057.25
2036	--	344,400.00	490,000	93,670.80	928,070.80
2037	--	344,400.00	510,000	76,955.05	931,355.05
2038	--	344,400.00	530,000	58,385.85	932,785.85
2039	--	344,400.00	545,000	39,191.73	928,591.73
2040	--	344,400.00	565,000	19,372.68	928,772.68
2041	330,000	337,800.00	260,000	4,642.30	932,442.30
2042	610,000	319,000.00	--	--	929,000.00
2043	635,000	294,100.00	--	--	929,100.00
2044	665,000	268,100.00	--	--	933,100.00
2045	690,000	241,000.00	--	--	931,000.00
2046	720,000	212,800.00	--	--	932,800.00
2047	745,000	183,500.00	--	--	928,500.00
2048	780,000	153,000.00	--	--	933,000.00
2049	810,000	121,200.00	--	--	931,200.00
2050	840,000	88,200.00	--	--	928,200.00
2051	875,000	53,900.00	--	--	928,900.00
2052	<u>910,000</u>	<u>18,200.00</u>	<u>--</u>	<u>--</u>	<u>928,200.00</u>
TOTAL	\$8,610,000	\$8,687,073.33	\$8,545,000.00	\$2,698,094.41	\$28,540,167.74

Source: District.

SECURITY FOR THE 2021 BONDS

General

Pursuant to the Indenture, all right, title and interest of the Authority in and to the Authority Revenues (as such term is defined in Appendix C hereto), including, but without limiting the generality of the foregoing, the present and continuing right to make claim for, collect, receive and receipt for any Authority Revenues which are payable to or receivable by the Authority under the Constitution of the State, the Government Code and the Indenture and any other applicable laws of the State or otherwise, to bring actions and proceedings thereunder for the enforcement thereof, and to do any and all things which the Authority is or may become entitled to do thereunder, subject to the terms of the Indenture. All moneys and securities held in funds and accounts of the Indenture, except amounts held in the Rebate Fund, and all other rights of every name and nature from time to time herein or hereafter by delivery or by writing of any kind pledged, assigned or transferred as and for additional security under the Indenture to the Trustee by the Authority or by anyone on its behalf, or with its written consent, and to hold and apply the same, subject to the terms of the Indenture. All of the rights, title, and interest of the Authority in the 2021 Installment Purchase Agreement, including all rights of the Authority to receive payments thereunder and all rights of the Authority thereunder as may be necessary to enforce compliance with said provisions (including enforcement of payment obligations and rate covenants, if any, contained in the 2021 Installment Purchase Agreement) or otherwise to protect the interest of the Owners of the 2021 Bonds, subject to the terms of the Indenture, and excepting therefrom any rights to indemnification or to receive notices thereunder.

The 2021 Bonds are limited obligations of the Authority. The 2021 Bonds are payable from Authority Revenues and from certain other amounts on deposit in funds and accounts under the Indenture. Authority Revenues consist primarily of Series 2021 Installment Payments received from the District pursuant to the 2021 Installment Purchase Agreement.

The 2021 Bonds are not debt of the members of the Authority, the State or any of its political subdivisions (other than the Authority) and neither the members of the Authority, said State nor any of its political subdivisions (other than the Authority) is liable thereon. The District will have no liability or obligation under the 2021 Installment Purchase Agreement except with respect to Series 2021 Installment Payments payable under the 2021 Installment Purchase Agreement.

Series 2021 Installment Payments Are Limited Obligations Payable From Contractual Obligation Assessment and Net Revenues

Proceeds of the Contractual Obligation Assessment are irrevocably pledged under the 2021 Installment Purchase Agreement to the payment of the Series 2021 Installment Payments as provided under the 2021 Installment Purchase Agreement and such proceeds will not be used for any other purpose while any of the Series 2021 Installment Payments remain unpaid; provided that out of the Contractual Obligation Assessment proceeds there may be apportioned such sums for such purposes as are expressly permitted under the 2021 Installment Purchase Agreement. Such pledge will constitute a first lien on proceeds of the Contractual Obligation Assessment and the Contractual Obligation Assessment Fund for the payment of the Series 2021 Installment Payments and all other Refunding Obligations in accordance with the terms of the 2021 Installment Purchase Agreement.

The Revenues, and all amounts that are on deposit in the Revenue Fund (other than proceeds of the Contractual Obligation Assessment), and any other amounts (including proceeds of the sale of the 2021 Bonds) which are held in any fund or account that is established pursuant to the 2021 Installment Purchase Agreement, are irrevocably pledged to the payment of the Series 2021 Installment Payments. While any of the Series 2021 Installment Payments remain unpaid, the Revenues (other than proceeds of the Contractual Obligation Assessment) will be allocated only to the purposes set forth below. Such pledge will constitute a first lien on Revenues, the Revenue Fund and the other funds and accounts that are created pursuant to the 2021 Installment Purchase Agreement for the payment of the Series 2021 Installment Payments and all other

Contracts and Bonds in accordance with the terms of the 2021 Installment Purchase Agreement and of the Indenture.

The obligation of the District to make the Series 2021 Installment Payments is absolute and unconditional, and until such time as the Purchase Price will have been paid in full (or provision for the payment thereof will have been made pursuant to the 2021 Installment Purchase Agreement), the District will not discontinue or suspend any Series 2021 Installment Payment which is required to be made by it under the 2021 Installment Purchase Agreement when due, whether or not the Water System or any part thereof is operating or operable or its use is suspended, interfered with, reduced or curtailed or terminated in whole or in part, and whether or not the 2021 Project has been completed, and such payments will not be subject to reduction whether by offset or otherwise and will not be conditional upon the performance or nonperformance by any party of any agreement for any cause whatsoever.

“Revenues” means all income, rents, rates, fees, charges and other moneys derived from the ownership or operation of the Water System in a Fiscal Year, determined in accordance with Generally Accepted Accounting Principles, including, without limiting the generality of the foregoing,

(1) all income, rents, rates, fees, charges, business interruption insurance proceeds or other moneys derived by the District from the sale, furnishing and supplying of water or other services, facilities, and commodities sold, furnished or supplied through the facilities of or in the conduct or operation of the business of the Water System, plus

(2) the proceeds of any stand-by or water availability charges, plus

(3) all amounts, if and to the extent received by the District, of the *ad valorem* assessment tax authorized to be levied by the District upon the land value of property within the District, plus

(4) any Revenues remaining after the payment of all other District obligations in the immediately prior Fiscal Year credited to landowners, lessees and water users in the current Fiscal Year, to the extent that such landowner, lessee or water user elects to have such credit applied to the current Fiscal Year’s water bill, plus

(5) the earnings on and income derived from the investment of the amounts described in clauses (1), (2), (3) and (4) above and from amounts in the 2021 Stabilization Fund, plus

(6) any excess Contractual Obligation Assessments transferred to the Revenue Fund under the 2021 Installment Purchase Agreement,

but excluding in all cases (i) customer deposits or any other deposits or advances subject to refund until such deposits or advances have become the property of the District, (ii) any proceeds of taxes restricted by law to be used by the District to pay obligations of the District other than Bonds or Contracts, including, but not limited to, any portion of the special benefit assessment assessed for purposes of financing the cost of capital modernization projects of the District, and (iii) the Contractual Obligation Assessments, except as provided in clause (6) above, the Contractual Obligation Assessment Fund, and the amounts on deposit therein. “Revenues” will also include all amounts transferred from the 2021 Stabilization Fund to the Revenue Fund during any Fiscal Year under the 2021 Installment Purchase Agreement to pay Operation and Maintenance Costs or Debt Service and will not include any amounts transferred from the Revenue Fund to the 2021 Stabilization Fund during any Fiscal Year under the 2021 Installment Purchase Agreement.

“Net Revenues” means, for any Fiscal Year, the Revenues for such Fiscal Year less the Operation and Maintenance Costs for such Fiscal Year.

“Operation and Maintenance Costs” means (i) costs spent or incurred for maintenance and operation of the Water System in a Fiscal Year calculated in accordance with Generally Accepted Accounting Principles, including (among other things) the reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Water System in good repair and working order, and including administrative costs of the District that are charged directly or apportioned to the Water System, including but not limited to salaries and wages of employees, payments to the Public Employees Retirement System, if any, contributions to defined contribution retirement plans, overhead, insurance, taxes (if any), fees of auditors, accountants, attorneys, consultants or engineers and insurance premiums, and including all other reasonable and necessary costs of the District or charges (other than Debt Service) required to be paid by it to comply with the terms of the 2021 Installment Purchase Agreement or any other Contract or of any resolution or indenture authorizing the issuance of any Bonds or of such Bonds, and (ii) all costs of all water purchased, stored, banked, exchanged or otherwise acquired for delivery by the Water System (including any interim or renewed arrangement therefor), but excluding in all cases depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles or other bookkeeping entries of a similar nature, including but not limited to restatements made in subsequent periods which would not have affected the District’s statements of revenues, expenses and changes in net position, prior period adjustments and any amounts transferred to the 2021 Stabilization Fund from Revenues.

In order to carry out and effectuate the pledge and lien under the 2021 Installment Purchase Agreement, the District agrees and covenants that all Contractual Obligation Assessment proceeds will be received by the District in trust under the 2021 Installment Purchase Agreement and will be deposited when and as received in a special fund designated as the “Contractual Obligation Assessment Fund,” which fund is established under the 2021 Installment Purchase Agreement and which fund the District agrees and covenants to maintain and to hold separate and apart from other funds so long as any Series 2021 Installment Payments remain unpaid.

Moneys in the Contractual Obligation Assessment Fund will be applied by the District as set forth in the 2021 Installment Purchase Agreement, and all moneys in each of such funds will be held in trust and will be applied, used and withdrawn only for the purposes authorized in the 2021 Installment Purchase Agreement.

Notwithstanding anything contained in the 2021 Installment Purchase Agreement, but subject to the priority of payment with respect to Operation and Maintenance Costs, the District will not be required to advance any moneys derived from any source other than the Contractual Obligation Assessments, Revenues, the Revenue Fund and the other moneys pledged hereunder whether for the payment of the Series 2021 Installment Payments or for any of the purposes mentioned in the 2021 Installment Purchase Agreement. Nevertheless, the District may, but will not be required to advance for any such purpose any funds of the District which may be made available for such purpose. The obligation of the District to make the Series 2021 Installment Payments is a special obligation of the District payable from the Contractual Obligation Assessments and the Net Revenues and does not constitute a debt of the District or of the State of California or of any political subdivision thereof in contravention of any constitutional or statutory debt limitation or restriction.

Rate Covenants Under the 2021 Installment Purchase Agreement

Contractual Obligation Assessment. The District will levy and collect the Contractual Obligation Assessment in an amount equal to the lesser of: (i) the maximum amount provided by law in each year; or (ii) the amount reasonably expected to pay the Series 2021 Installment Payments and any Refunding Obligations, including any reasonable coverage requirement to account for anticipated or unanticipated delinquencies, so long as any Series 2021 Installment Payments or Refunding Obligations remain Outstanding.

Revenues. To the fullest extent permitted by law, the District shall fix and prescribe, at the commencement of each Fiscal year, rates and charges (including land based charges) for the Water Service which are reasonably expected to be at least sufficient to yield during each Fiscal Year Net Revenues equal to one twenty-five hundred percent (125%) of Debt Service on Bonds and Contracts for such Fiscal Year, after

taking into account any amounts transferred from the 2021 Stabilization Fund to the Revenue Fund in accordance with the 2021 Installment Purchase Agreement, and less, in the case of Series 2021 Installment Payments or any Refunding Obligations, the proceeds of the Contractual Obligation Assessment levied to pay Series 2021 Installment Payments and the Refunding Obligations for such Fiscal Year. The District may make adjustments from time to time in such rates and charges (including land based charges) and may make such classifications thereof as it deems necessary, but will not reduce the rates and charges (including land based charges) then in effect unless the Net Revenues from such reduced rates and charges (including land based charges) are reasonably expected to be sufficient to meet the requirements of the 2021 Installment Purchase Agreement.

For avoidance of doubt, so long as the District has complied with its obligations in the preceding paragraph, the failure of Net Revenues to meet the threshold set forth in the 2021 Installment Purchase Agreement at the end of a Fiscal Year shall not constitute a default or an Event of Default so long as the District has complied with Installment Purchase Agreement at the commencement of the succeeding Fiscal Year. A failure to meet such threshold may, however, affect the ability of the District to issue Bonds or incur Contracts payable from Net Revenues on a parity with the Series 2021 Installment Payments. See the caption "Additional Indebtedness Under the 2021 Installment Purchase Agreement."

Additional Indebtedness Under the 2021 Installment Purchase Agreement

From the Contractual Obligation Assessment. Under the 2021 Installment Purchase Agreement, the District has covenanted not to issue or incur any obligation payable from the Contractual Obligation Assessment senior to the Series 2021 Installment Payments and not to issue or incur any obligation payable from the Contractual Obligation Assessment on a parity to such Series 2021 Installment Payments, other than obligations refunding such Series 2021 Installment Payments.

From Net Revenues on Parity with the Series 2021 Installment Payments. The District may issue Bonds or Contracts payable from Net Revenues on a parity with the Series 2021 Installment Payments in the future as described herein. The 2021 Installment Purchase Agreement does not impose any limitation on the issuance of additional obligations payable from Net Revenues subordinate to the Series 2021 Installment Payments.

The District may at any time execute any Contract or issue any Bonds, as the case may be, in accordance herewith; provided:

(i) The Net Revenues for the most recent audited Fiscal Year preceding the date of adoption by the Board of Directors of the District of the resolution authorizing the issuance of such Bonds or the date of the execution of such Contract, as the case may be, as evidenced by both a calculation prepared by the District and a special report prepared by an Independent Certified Public Accountant or an Independent Municipal Consultant on such calculation on file with the District, will have produced a sum equal to at least one hundred twenty-five percent (125%) of the Debt Service for such Fiscal Year (less, in the case of Series 2021 Installment Payments or any Refunding Obligations, the proceeds of the Contractual Obligation Assessment applied to the payment of the Series 2021 Installment Payments and the Refunding Obligations for such Fiscal Year); and

(ii) The Net Revenues for the most recent audited Fiscal Year preceding the date of the execution of such Contract or the date of adoption by the Board of Directors of the District of the resolution authorizing the issuance of such Bonds, as the case may be, including adjustments to give effect as of the first day of such Fiscal Year to increases in rates and charges (including land based charges) for the Water Service approved and in effect as of the date of calculation, as evidenced by both a calculation prepared by an Authorized Representative and a special report prepared by an Independent Certified Public Accountant or an Independent Municipal Consultant on such calculation on file with the District, will have produced a sum equal to at least one hundred twenty-five percent (125%) of the Debt Service for such Fiscal Year (less, in the case of Series 2021 Installment Payments or any Refunding Obligations, the proceeds of the Contractual Obligation

Assessment applied to the payment of the Series 2021 Installment Payments and the Refunding Obligations for such Fiscal Year) plus the Debt Service which would have accrued on any Contracts executed or Bonds issued since the end of such Fiscal Year assuming such Contracts had been executed or Bonds had been issued at the beginning of 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 Parity Project, as evidenced by a certificate of the General Manager of the District on file with the District, including (after giving effect to the completion of all such uncompleted Parity Projects) an allowance for estimated Net Revenues for each of such Fiscal Years arising from any increase in the income, rents, fees, rates and charges estimated to be fixed, prescribed or received for the Water Service and which are economically feasible and reasonably considered necessary based on projected operations for such period, as evidenced by a certificate of the General Manager on file with the District, will produce a sum equal to at least one hundred twenty-five percent (125%) of the estimated Debt Service for each of such Fiscal Years, after giving effect to the execution of all Contracts and the issuance of all Bonds estimated to be required to be executed or issued to pay the costs of completing all uncompleted Parity Projects within such Fiscal Years (less, in the case of Series 2021 Installment Payments or any Refunding Obligations, the proceeds of the Contractual Obligation Assessment levied to pay Series 2021 Installment Payments and the Refunding Obligations for such Fiscal Years), assuming that all such Contracts and Bonds have maturities, interest rates and proportionate principal repayment provisions similar to the Contract last executed or then being executed or the Bonds last issued or then being issued for the purpose of acquiring and constructing any of such uncompleted Parity Projects.

Notwithstanding the foregoing, Bonds or Contracts may be issued or incurred to refund outstanding Bonds or Contracts if, at the time of the incurring of such Bonds or Contracts, a certificate of the District will be delivered showing that Debt Service on the refunding Bonds or Contracts will not exceed by more than 10% Debt Service on the refunded Bonds or Contracts in each Fiscal Year.

Notwithstanding satisfaction of the other conditions to the execution of any Contract or the issuance of Bonds set forth in the 2021 Installment Purchase Agreement, no such execution or issuance may occur if an Event of Default (or any event which, once all notice or grace periods have passed, would constitute an Event of Default) exists unless such Event of Default will be cured upon such execution or issuance.

2021 Stabilization Fund

The 2021 Installment Purchase Agreement establishes a special fund designated as the “2021 Stabilization Fund” pursuant to the 2021 Installment Purchase Agreement. The District agreed and covenanted therein to continue and maintain, so long as any 2021 Bonds remain outstanding, the 2021 Stabilization Fund. On the date of execution of the 2021 Installment Purchase Agreement, there will be approximately \$1,166,375 on deposit in the 2021 Stabilization Fund. For avoidance of doubt, the balance on deposit in the 2021 Stabilization Fund on the date of execution of the 2021 Installment Purchase Agreement comprises money received by the District prior to Fiscal Year 2022 and such amount will not be deducted from Revenues for Fiscal Year 2022 or any prior Fiscal Year for purposes of the definition of Revenues. Money in the 2021 Stabilization Fund will be applied in accordance with the 2021 Installment Purchase Agreement.

All amounts on deposit in the 2021 Stabilization Fund have been irrevocably pledged to the payment of the Bonds and Contracts as provided in the 2021 Installment Purchase Agreement; provided that amounts on deposit in the 2021 Stabilization Fund may be apportioned as expressly permitted in the 2021 Installment Purchase Agreement and expended by the District for any lawful District purpose.

The District may withdraw all or any portion of the amounts on deposit in the 2021 Stabilization Fund and transfer such amounts to the Revenue Fund for application in accordance with the 2021 Installment Purchase Agreement or, in the event that all or a portion of the Series 2021 Installment Payments are discharged in accordance with the 2021 Installment Purchase Agreement, transfer all or any portion of such amounts for application in accordance with the 2021 Installment Purchase Agreement. Amounts transferred

from the 2021 Stabilization Fund to the Revenue Fund pursuant to the 2021 Installment Purchase Agreement within 270 days after the end of a Fiscal Year, may be taken into account as Revenues for purposes of the calculations in the 2021 Installment Purchase Agreement in such Fiscal Year.

No Reserve Fund

No reserve fund has been created or funded to secure the 2021 Bonds.

INVESTMENT CONSIDERATIONS

The following information, in addition to the other matters that are described in this Official Statement, should be considered by prospective investors in evaluating the 2021 Bonds. However, the following does not purport to be comprehensive, definitive or an exhaustive listing of risks and other considerations that may be relevant to making an investment decision with respect to the 2021 Bonds. In addition, the order in which the following information is presented is not intended to reflect the relative importance of any such risks. If any risk factor materializes to a sufficient degree, it alone could delay or preclude payment of principal or interest on the 2021 Bonds.

Regulatory Constraints on CVP Operations

There can be no assurance that CVP Contract Water allocated by Reclamation will be maintained at levels described under the caption “PANOCHE WATER DISTRICT—Historic Water Sources” in Appendix A. As discussed under the caption “PANOCHE WATER DISTRICT—District Water Supply” in Appendix A, the allocation of CVP water by Reclamation to the District will vary materially from year-to-year for a variety of reasons. Based on the Addendum to the Agreement Between the United States of America and the Department of Water Resources of the State of California for Coordinated Operation of the Central Valley Project and the State Water Project (the “COA Addendum”) and the October 2019 biological opinions, which replaced biological opinions issued in 2008 and 2009 by the United States Fish and Wildlife Service and United States National Marine Fisheries Service, respectively, the District believes that CVP water allocations could improve as compared to recent historical averages; however, the District cannot predict the magnitude of such improvement.

Two separate actions challenging the October 2019 biological opinions, Reclamation’s issuance of the record of decision for coordinated operations of the CVP and its reliance on the 2019 biological opinions have been brought against Reclamation. There is also a separate action challenging the COA Addendum. See Appendix A—“PANOCHE WATER DISTRICT—LITIGATION” for a discussion of the litigation relating to the October 2019 biological opinions and the COA Addendum. If the challenges are successful, contract water deliveries could be less than current District projections and could result in less CVP water being allocated to the District by Reclamation.

On January 20, 2021, the White House issued an executive order that, among other things, directed certain United States of America departments and agencies to review the 2019 biological opinions. See Appendix A—“PANOCHE WATER DISTRICT—District Water Supply – CVP Contract Water.”

Certain Factors Affecting Agricultural Areas

The District’s revenues are generated primarily from two sources: water charges collected from water users within the District and land based acreage charges and assessments on the owners of the land within the District. A number of factors, including but not limited to weather conditions, crop prices, disease and crop predation, federal and State agricultural and environmental policies, federal reclamation law policies, national and international trade policies, soil quality, drainage or other soil conditions, operational conditions as well as general economic conditions may materially adversely affect the ability of water users to pay water rates or landowners to pay acreage charges or assessments, including the Contractual Obligation Assessments. If one or a combination of these factors adversely impacts the ability of the landowners or water users to make such

payments, the District expects that collection of water charges, acreage charges or assessments in the District could decline. The District does not believe that such decline would materially adversely affect the ability of the District to pay the Series 2021 Installment Payments unless such factors continued for a substantial period of time.

Rate Covenant Not a Guarantee

The Series 2021 Installment Payments, which secure the 2021 Bonds, are payable from Net Revenues of the Water System and the Contractual Obligation Assessment, and, if proceeds of the Contractual Obligation Assessments are not sufficient to pay the Series 2021 Installment Payments, the District's ability to pay the Series 2021 Installment Payments will depend on its ability to generate Net Revenues at the levels required by the 2021 Installment Purchase Agreement. Although the District has covenanted in the 2021 Installment Purchase Agreement to use its best efforts to impose rates and charges as more particularly described under the caption "—Rate Covenant" under "SECURITY FOR THE 2021 BONDS," and although the District expects that sufficient Revenues will be generated through the imposition and collection of such rates and charges, there is no assurance that the imposition and collection of such rates and charges will result in the generation of Net Revenues in amounts sufficient, after application of Contractual Obligation Assessments as described under the caption "SECURITY FOR THE 2021 BONDS—General," to pay the Series 2021 Installment Payments. Among other matters, the availability of and demand for water and changes in law and government regulations could materially adversely affect the amount of Revenues realized by the District. No assurance can be made that revenues of the Water System, estimated or otherwise, will be realized by the District in amounts sufficient to pay the Series 2021 Installment Payments which secure the 2021 Bonds. Among other matters, the availability of and demand for water, and changes in law and government regulations could materially adversely affect the amount of revenues realized by the District. In addition, the District's ability to generate Net Revenues sufficient to pay the Series 2021 Installment Payments may be materially adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or persons obligated to pay assessments, fees and charges. See "CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES." A period of drought could reduce the amount of water used by farmers in the District service area, which thereby could reduce Net Revenues of the Water System. See Appendix A—"PANOCHE WATER DISTRICT—District Water Supply" herein.

Pursuant to the 2021 Installment Purchase Agreement, the District can transfer amounts from the 2021 Stabilization Fund to the Revenue Fund, as more particularly described under the captions "—2021 Stabilization Fund" under "SECURITY FOR THE 2021 BONDS" herein. Such amounts shall constitute Revenues for purposes of the rate covenant and the calculations to issue additional Bonds or execute additional Contracts, as described under the captions "SECURITY FOR THE 2021 BONDS—Additional Indebtedness Under the 2021 Installment Purchase Agreement." Such transferred amounts shall count as Revenues for a Fiscal Year for purposes of the rate covenant and the calculations to issue additional Bonds or execute additional Contracts for a particular Fiscal Year, even if such amounts are transferred to the Revenue Fund up to 270 days after the end of such Fiscal Year.

Collection of Contractual Obligation Assessment

The Contractual Obligation Assessment will be collected by the respective treasurer-tax collectors of Merced and Fresno Counties on the annual property tax bills of the landowners subject to the Contractual Benefit Assessment. The District expects to apply to each county for the enrollment in the respective counties' Teeter Plans. Under the policies of Merced and Fresno Counties, the Contractual Obligation Assessment will need to be collected for three Fiscal Years before the Contractual Obligation Assessment may be enrolled in the Teeter Plan. Until the Contractual Obligation Assessment is enrolled in the Teeter Plans of the counties, the District's receipt of the proceeds of the Contractual Obligation Assessment will be dependent on respective treasurer-tax collectors of Merced and Fresno Counties' ability to collect the Contractual Obligation Assessment coming due.

There can be no assurance that the actual amount of Contractual Obligation Assessment received by District will occur as described in this Official Statement. Factors, including, but not limited to, an economic downturn, natural disasters and an increase in foreclosures on real property in the boundaries of the District, among others, may have an adverse impact on the willingness of landowners to pay the Contractual Obligation Assessment. See “- COVID-19” below for a discussion of the potential impact of the COVID-19 pandemic on the District. The treasurer-tax collectors of Merced and Fresno Counties each adopted policies pursuant to which the treasurer-tax collector of such county was permitted to consider waiving fees and penalties levied on a taxpayer who failed to make the property tax installment due on April 10, 2020 by such date due to reasons related to the COVID-19 pandemic. There can be no assurance that such treasurer-tax collectors will not implement similar policies in the future and that such policies will not have a material adverse effect on the collection of the Contractual Obligation Assessment.

Validation of the 9(d) Contract

For a discussion of the validation proceedings, see the caption Appendix A—“PANOCHE WATER DISTRICT—LITIGATION—Validation of Proceedings for 9(d) Contract” herein.

Water Service Demand

There can be no assurance that the local demand for water service provided by the Water System will be maintained at levels described in Appendix A of this Official Statement under the heading “PANOCHE WATER DISTRICT – Projected Water Sources.” Demand for water services could be reduced as a result of hydrological conditions, conservation efforts (including in response to a drought), an economic downturn and other factors. Reduction in the level of demand could require an increase in rates or charges in order to produce Net Revenues, after application of Contractual Obligation Assessments, sufficient to comply with the District’s rate covenant in the 2021 Installment Purchase Agreement. Such rate increases could increase the likelihood of nonpayment, and could also further decrease demand. Furthermore, there can be no assurance that any other entity with regulatory authority over the CVP or the Water System will not adopt further restrictions on operation of the CVP or the Water System.

Water System Expenses

There can be no assurance that Operation and Maintenance Costs of the Water System will be consistent with the levels described in this Official Statement. Changes in technology, increases in the cost of water or other expenses would reduce Net Revenues, and could require substantial increases in rates or charges in order to comply with the rate covenant. Such rate increases could increase the likelihood of nonpayment, and could also decrease demand.

Upon repayment of the District’s existing capital repayment obligation from the proceeds of the 2021 Bonds, the Cost of Service rate paid by the District for CVP water will no longer include a capital component for CVP construction costs allocated to the District prior to execution of the 9(d) Contract. Construction costs for CVP facilities or other capitalized costs incurred after the effective date of the 9(d) Contract or not assigned to the District prior to execution of the 9(d) Contract will be paid to the United States pursuant to a separate agreement between the District and the United States within the timeframe prescribed by the WIIN Act. See, however, the caption Appendix A—“PANOCHE WATER DISTRICT—Drainage.”

Sustainable Groundwater Management Act

There can be no assurance that groundwater pumping by water users will be maintained at levels described in the table titled “Supplemental Water Supplies Acquired” under caption “PANOCHE WATER DISTRICT—District Water Supply—Supplemental Water” in Appendix A. Implementation of the SGMA and the District’s decision to be a member of a Groundwater Sustainability Agency (“GSA”) for the Delta-Mendota Sub-basin required that the member agencies prepare a Groundwater Sustainability Plan (“GSP”). The recommendations in the GSP may include limitations on groundwater pumping, increased land fallowing,

and increased costs. Implementation of the GSP recommendations could also result in claims against the District for failure to comply with applicable laws and regulations.

Statutory and Regulatory Compliance

Laws and regulations governing the treatment and delivery of water are enacted and promulgated by federal, State and local government agencies. Compliance with these laws and regulations is and will continue to be costly, and, as more stringent standards are developed, such costs will likely increase.

The District is unaware of any claim against the District for failure to comply with applicable laws and regulations. However, if such a claim were successful, such claim may be payable from assets of the District or from other legally available sources. In addition to claims by private parties, changes in the scope and standards for public agency water systems such as that operated by the District may also lead to administrative orders issued by federal or State regulators. Future compliance with such orders can also impose substantial additional costs on the District. No assurance can be given that the cost of compliance with such laws, regulations and orders would not materially adversely affect the ability of the District to generate Net Revenues sufficient to pay the Series 2021 Installment Payments.

Limitations on Remedies Available; Bankruptcy

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

The opinion to be delivered by Bond Counsel concurrently with the issuance of the 2021 Bonds will be subject to such limitations and the various other legal opinions to be delivered concurrently with the issuance of the 2021 Bonds will be similarly qualified. See Appendix D. In the event that the District fails to comply with its covenants under the 2021 Installment Purchase Agreement or fails to pay the Series 2021 Installment Payments, which secure the 2021 Bonds, there can be no assurance of the availability of remedies adequate to protect the interest of the holders of the 2021 Bonds. Furthermore, the remedies available to the owners of the 2021 Bonds upon the occurrence of an event of default under the 2021 Installment Purchase Agreement 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.

No Obligation to Tax

Although the District has covenanted to levy the Contractual Obligation Assessment as described under the caption "SECURITY FOR THE 2021 BONDS—General," the obligation of the District to pay the Series 2021 Installment Payments that secure the 2021 Bonds does not constitute an obligation of the District for which the District is obligated to levy or pledge any form of taxation or for which the District has levied or pledged any form of taxation. The obligation of the District to pay the Series 2021 Installment Payments does not constitute a debt or indebtedness of any agency, the State of California or any of its political subdivisions, in contravention of any constitutional or statutory debt limitation or restriction.

Change in Law

In addition to the other limitations described herein, the California electorate or Legislature could adopt a constitutional or legislative property tax decrease or an initiative with the effect of reducing revenues payable to or collected by the District. There is no assurance that the California electorate or Legislature will not at some future time approve additional limitations that could reduce the revenues and materially adversely affect the security of the Series 2021 Installment Payments and the 2021 Bonds.

Natural Disasters and Seismic Considerations

General. The occurrence of any natural disaster within the District or affecting the CVP itself or any Reclamation facilities, including, without limitation, earthquake, wildfire, drought, high winds, landslide or flood, could have an adverse material impact on the economy within the District and the revenues available for the payment of the Series 2021 Installment Payments and result in substantial damage to and interference with the operations of the Water System.

Seismic Activity. The area encompassed by the District as well as areas from where Reclamation provides water to the District, like that in much of California, may be subject to unpredictable seismic activity. The District and such Reclamation facilities are located within a regional network of several active and potentially active faults. In addition, the Delta, from or through which the District's CVP water supply is diverted or conveyed, is home to an extensive levee network critical to the CVP's water supply reliability. If there were to be an occurrence of severe seismic activity in the District or in areas, including the Delta, affecting Reclamation's facilities, there could be an impact on the ability of water users to pay the Water System rates and charges, diminishing Net Revenues, which could have a material adverse effect on the District's ability to pay the Series 2021 Installment Payments.

The District maintains earthquake insurance on certain Water System facilities. In addition, Reclamation does not maintain earthquake insurance for Reclamation's facilities. See the caption "PANOCHE WATER DISTRICT—Insurance" in Appendix A.

Flooding. Portions of the District and areas where Reclamation facilities are located are mapped within the 100-year flood plain and have the potential to flood if rain events exceed the floodplain capacity. The District maintains insurance covering damage to the Water System caused by flooding. Reclamation does not maintain insurance for damage to Reclamation's facilities caused by flooding. See the subcaption "—Climate Change" below and the caption "PANOCHE WATER DISTRICT—Insurance" in Appendix A. Damage to portions of the District due to damage caused by flooding and the impact on the agricultural activities taking place thereon, may affect the demand for water within the District's service area or the ability or willingness of landowners to pay acreage charges or assessments.

Fire. Wildfires have occurred historically in different regions of the State, including areas in which Reclamation conducts water gathering activities and near the District's service area. There can be no assurance that fires will not occur near CVP facilities or within the boundaries of the District in the future, leading to decreased CVP water supplies received by the District or usage of the District's Water System and a decline in Net Revenues. The District carries insurance for fire damage for the District facilities. In addition, Reclamation does not carry insurance for fire damage on Reclamation's facilities. See the caption "PANOCHE WATER DISTRICT—Insurance" in Appendix A.

Drought. For several years prior to 2017, the State experienced a significant drought, one of the consequences of which was a 0% allocation of CVP water deliveries by Reclamation to the District in Fiscal Years 2015 and 2016 and significantly reduced allocations by Reclamation in Fiscal Years 2014 and 2017.

Beginning in April 2021, Governor Newsom signed a series of proclamations determining, as of the date of this Official Statement, that 50 counties in the State, including Merced and Fresno Counties, are in a state of emergency due to drought conditions affecting such areas. Due to the worsening hydrological

conditions in California, Reclamation announced on May 26, 2021, that the allocation for Fiscal Year 2022 will be reduced to 0% from the previous 5% allocation. In addition, on July 8, 2021, Governor Newsom signed Executive Order N-10-21, which asks citizens of the State to voluntarily reduce their water use by 15% compared to 2020 levels. The District currently projects water sales in Fiscal Year 2022 to be less than water sales in Fiscal Year 2021 by more than 15%. See the caption “PANOCHE WATER DISTRICT—Projected Water Deliveries” in Appendix A.

On July 30, 2021, the State Water Resources Control Board (“SWRCB”) issued a Notice of Proposed Emergency Rulemaking that proposes a regulation (the “Proposed Regulation”) that would authorize the Deputy Director for the Division of Water Rights to issue curtailment orders requiring certain water users to cease diversions from the Delta watershed and its tributaries. The SWRCB adopted the Proposed Regulation on August 3, 2021. The District does not believe that such curtailments will have a material adverse effect on the sources of District water supplies identified under the caption “PANOCHE WATER DISTRICT—Projected Water Sources” in Appendix A during the current water year. If curtailments are implemented and extended beyond the current water year, the District cannot predict the effect of such curtailments on such sources of District water supplies in future water years.

There can be no assurance that drought conditions will not persist or worsen in the future. The persistence of drought conditions may result in decreased amounts of CVP water received by the District from Reclamation, which could materially adversely affect the ability of the District to generate Net Revenues in amounts that are sufficient to pay the Series 2021 Installment Payments.

Climate Change. Climate change, including change caused by human activities, may have material adverse effects on the District’s Water System. As greenhouse gas emissions continue to accumulate in the atmosphere as a result of economic activity, climate change is expected to intensify, potentially increasing the frequency, severity and timing of extreme weather events such as coastal storm surges, drought, wildfires, floods and heat waves, and raising sea levels. The future fiscal impact of climate change on the CVP, the District or the Reclamation facilities is difficult to predict, but it could be significant and it could have a material adverse effect on the District’s finances by requiring greater expenditures to counteract the effects of climate change or by changing the business and activities of District customers. The District considers the potential effects of climate change in its planning, consistent with state law.

Parity Obligations

Under the 2021 Installment Purchase Agreement, the District is not permitted to issue or incur obligations payable from the Contractual Obligation Assessments unless such obligations are issued or incurred, as applicable, for the purpose of prepaying the Series 2021 Installment Payments or obligations issued or incurred to prepay the Series 2021 Installment Payments, as further described under the caption “SECURITY FOR THE 2021 BONDS— Additional Indebtedness Under the 2021 Installment Purchase Agreement.”

The 2021 Installment Purchase Agreement permits the District to issue Bonds and enter into Contracts payable from Net Revenues on a parity with the Series 2021 Installment Payments, which secure the 2021 Bonds, subject to the terms and conditions set forth therein. See the caption “SECURITY FOR THE 2021 BONDS—Additional Indebtedness Under the 2021 Installment Purchase Agreement” herein. The issuance of additional Bonds and entry into Contracts could result in reduced Net Revenues available to pay the Series 2021 Installment Payments. In the 2021 Installment Purchase Agreement, the District has covenanted to use its best efforts to impose rates and charges to maintain coverage of at least 125% of Debt Service, less, in the case of Series 2021 Installment Payments or any obligations issued to prepay the Series 2021 Installment Payments, the proceeds of the Contractual Obligation Assessment levied to pay Series 2021 Installment Payments and any obligations issued to prepay the Series 2021 Installment Payments for such Fiscal Year, as further described under the caption “SECURITY FOR THE 2021 BONDS—Additional Indebtedness Under the 2021 Installment Purchase Agreement.”

Loss of Tax Exemption

Interest with respect to the 2021A Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date that the 2021A Bonds were issued as a result of future acts or omissions of the District in violation of its covenants in the 2021 Installment Purchase Agreement or the Authority in violation of its covenants in Indenture. In addition, current and future legislative proposals, if enacted into law, may cause interest with respect to the 2021A Bonds to be subject, directly or indirectly, to federal income taxation by, for example, changing the current exclusion or deduction rules to limit the aggregate amount of interest on state and local government bonds that may be treated as tax exempt by individuals. See the caption “TAX MATTERS.” Should such an event of taxability occur, the 2021A Bonds are not subject to a special prepayment and will remain outstanding until maturity.

Secondary Market for Bonds

There can be no guarantee that there will be a secondary market for the 2021 Bonds or, if a secondary market exists, that any 2021 Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then-prevailing circumstances. Such prices could be substantially different from the original purchase price.

COVID-19

The spread of the novel strain of coronavirus and the disease it causes (now known as “COVID-19”) is having significant negative impacts throughout the world, including in California. The World Health Organization has declared the COVID-19 outbreak to be a pandemic, and states of emergency have been declared by the United States, the State, and numerous counties throughout the State, including Merced and Fresno Counties. The purpose behind these declarations is to coordinate and formalize emergency actions and across federal, state and local governmental agencies, and to proactively prepare for a wider spread of the virus.

On March 19, 2020, in an effort to slow the spread of COVID-19, Governor Newsom issued Executive Order N-33-20 ordering individuals living in the State to stay home or at their place of residence except for specified exceptions. The District workforce is considered essential under the Food and Agriculture sector profile included in the Essential Critical Infrastructure Workers under the Governor’s Executive Order N-33-20. This classification permits the District workforce to be excepted from the portion of Executive Order N-33-20 that orders non-essential workers to remain in their place of residence. The District’s workforce offers essential services to water users and landowners by providing water for the growing of agricultural crops within the District. The District continues to operate in accordance with the health guidelines established by the County of Fresno, the State of California, and the federal government. The District has continued to deliver water to its customers daily without interruption.

With widespread vaccination currently underway in the United States and many countries worldwide, some of the governmental-imposed stay-at-home orders and restrictions on operations of schools and businesses implemented to respond to and control the outbreak have been eased or eliminated. On June 11, 2021, Governor Newsom issued two executive orders, which became effective on June 15, 2021, which had the effect of rescinding a majority of the COVID-19-related restrictions and providing a timeline for gradually lifting certain of the other restrictions that were not fully rescinded on June 15, 2021. No assurance can be given that governmental authorities will not reinstate the prior restrictions in the event that the COVID-19 outbreak worsens. The ultimate impact of COVID-19 on the operations and finances of the District is unknown and there can be no assurance that the outbreak of COVID-19 will not affect the District’s ability to pay the Series 2021 Installment Payments, which secure the 2021 Bonds.

Cyber Security

Municipal agencies, like other business entities, face significant risks relating to the use and application of computer software and hardware. Recently, there have been significant cyber security incidents affecting municipal agencies, including a freeze affecting computer systems of the City of Atlanta, an attack on the City of Baltimore's 911 system, an attack on the Colorado Department of Transportation's computers and an attack that resulted in the temporary closure of the Port of Los Angeles' largest terminal.

The District employs cyber protection in multiple layers. The District requires secure virtual private network for access to servers and network via Sonicwall firewalls. Sonicwall also provides anti-spam and anti-virus functionality at the perimeter of network. In addition, users, servers and workstations are protected by Symantec Enterprise anti-virus, and anti-spam. User controls enforce passwords and permissions to allow or disallow access as required data is protected by full-server encrypted backups with additional cloud copies. The District contracts with a third-party for the management of the District's IT systems, including cyber security services, which includes monitoring the District's systems, contacting District staff in the event that a cyber security incident is detected and training District staff regarding procedures to minimize the District's exposure to a cyber security incident. If a future attack or local disaster were to result in disruption of District operations, the District expects that the situation would be temporary and speedily resolved. In addition, the District also carries coverage for cyber liability and cyber security.

THE AUTHORITY

The Authority is a joint powers authority organized pursuant to the Joint Powers Agreement. The Joint Powers Agreement was entered into pursuant to the provisions of the Act. The Authority is governed by a board of directors. The Board of Directors for the District serves as the board of directors for the Authority. The Authority was created to provide for financing and refinancing on behalf of the District or PDD by exercising the powers referred to in the Joint Powers Agreement, and any other transaction authorized by law. Under the Act, the Authority has the power to issue bonds to assist its member agencies in the financing and refinancing of public capital improvements, or projects for the public benefit. Neither the District nor PDD is responsible for repayment of the indebtedness of the other.

APPROVAL OF LEGAL PROCEEDINGS

The valid, legal and binding nature of the 2021 Bonds is subject to the approval of Stradling Yocca Carlson & Rauth, a Professional Corporation, acting as Bond Counsel and certain other conditions. The form of such legal opinion is attached hereto as Appendix D and such legal opinion will be attached to each 2021 Bond. The Underwriter is being represented by its counsel, Kutak Rock LLP, Irvine, California. Certain legal matters will be passed upon for the District by Welty, Weaver & Currie, Healdsburg, California, as the General Counsel of the District, for the Authority by Welty, Weaver & Currie, Healdsburg, California, as General Counsel to the Authority, for the District by Stradling Yocca Carlson & Rauth, a Professional Corporation, as Disclosure Counsel and for the Trustee by its counsel.

Payment of the fees of Stradling Yocca Carlson & Rauth, a Professional Corporation, are contingent on the issuance of the 2021 Bonds. Stradling Yocca Carlson & Rauth, a Professional Corporation, represents the Underwriter from time-to-time on matters unrelated to the Authority, the District or the 2021 Bonds. Stradling Yocca Carlson & Rauth, a Professional Corporation, does not represent the Underwriter or any other party in connection with the issuance of the 2021 Bonds other than the Authority and the District.

TAX MATTERS

2021A Bonds

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Sacramento, California, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the 2021A Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals. In the further opinion of Bond Counsel, interest (and original issue discount) on the 2021A Bonds is exempt from State of California personal income tax.

Bond Counsel's opinion as to the exclusion from gross income for federal income tax purposes of interest (and original issue discount) on the 2021A Bonds is based upon certain representations of fact and certifications made by the District, the Authority and others and is subject to the condition that the District and the Authority comply with all requirements of the Code that must be satisfied subsequent to the issuance of the 2021A Bonds to assure that interest (and original issue discount) on the 2021A Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) on the 2021A Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2021A Bonds. The District and the Authority have covenanted to comply with all such requirements.

In the opinion of Bond Counsel, the difference between the issue price of a 2021A Bond (the first price at which a substantial amount of the 2021A Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity of such 2021A Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a 2021A Bond Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a 2021A Bond Owner will increase the 2021A Bond Owner's basis in the applicable 2021A Bond. The amount of original issue discount that accrues to the Owner of a 2021A Bond is excluded from the gross income of such 2021A Bond Owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals, and is exempt from State of California personal income tax.

The amount by which a 2021A Bond Owner's original basis for determining loss on sale or exchange in the applicable 2021A Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium, which must be amortized under Section 171 of the Code; such amortizable bond premium reduces the 2021A Bond Owner's basis in the applicable 2021A Bond (and the amount of tax-exempt interest received with respect to the 2021 Bonds), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of bond premium may result in a 2021A Bond Owner realizing a taxable gain when a 2021A Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the 2021A Bond to the Owner. Purchasers of the 2021A Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

The IRS has initiated an expanded program for the auditing of tax exempt bond issues, including both random and targeted audits. It is possible that the 2021A Bonds will be selected for audit by the IRS. It is also possible that the market value of the 2021A Bonds might be affected as a result of such an audit of the 2021A Bonds (or by an audit of similar municipal obligations). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, Congress or the IRS might not change the Code (or interpretation thereof) subsequent to the issuance of the 2021A Bonds to the extent that it materially adversely affects the exclusion from gross income of interest (and original issue discount) on the 2021A Bonds or their market value.

SUBSEQUENT TO THE ISSUANCE OF THE 2021A BONDS THERE MIGHT BE FEDERAL, STATE OR LOCAL STATUTORY CHANGES (OR JUDICIAL OR REGULATORY CHANGES TO OR INTERPRETATIONS OF FEDERAL, STATE OR LOCAL LAW) THAT AFFECT THE FEDERAL, STATE OR LOCAL TAX TREATMENT OF THE 2021A BONDS, INCLUDING THE IMPOSITION OF ADDITIONAL FEDERAL INCOME OR STATE TAXES BEING IMPOSED ON OWNERS OF TAX-EXEMPT STATE OR LOCAL OBLIGATIONS, SUCH AS THE 2021A BONDS. THESE CHANGES COULD ADVERSELY AFFECT THE MARKET VALUE OR LIQUIDITY OF THE 2021A BONDS. NO ASSURANCE CAN BE GIVEN THAT SUBSEQUENT TO THE ISSUANCE OF THE 2021A BONDS STATUTORY CHANGES WILL NOT BE INTRODUCED OR ENACTED OR JUDICIAL OR REGULATORY INTERPRETATIONS WILL NOT OCCUR HAVING THE EFFECTS DESCRIBED ABOVE. BEFORE PURCHASING ANY OF THE 2021A BONDS, ALL POTENTIAL PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS REGARDING POSSIBLE STATUTORY CHANGES OR JUDICIAL OR REGULATORY CHANGES OR INTERPRETATIONS, AND THEIR COLLATERAL TAX CONSEQUENCES RELATING TO THE 2021A BONDS.

Bond Counsel's opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Indenture, the Installment Purchase Agreement and the Tax Certificate relating to the 2021A Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the effect on the exclusion from gross income of interest (and original issue discount) for federal income tax purposes with respect to any 2021A Bond if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

Although Bond Counsel has rendered an opinion that interest (and original issue discount) on the 2021A Bonds is excluded from gross income for federal income tax purposes provided that the District continues to comply with certain requirements of the Code, the ownership of the 2021A Bonds and the accrual or receipt of interest (and original issue discount) on the 2021A Bonds may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the 2021A Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the 2021A Bonds.

Should interest (and original issue discount) on the 2021A Bonds become includable in gross income for federal income tax purposes, the 2021A Bonds are not subject to early redemption and will remain outstanding until maturity or until redeemed in accordance with the Indenture.

2021B Bonds

In the opinion of Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, interest on the 2021B Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Code but interest on the 2021B Bonds is exempt from State of California personal income tax.

With certain exceptions, the difference between the issue price of a 2021B Bond (the first price at which a substantial amount of the 2021B Bonds of the same maturity is to be sold to the public) and the stated redemption price at maturity (to the extent that such issue price is lower than the stated redemption price at maturity) with respect to such 2021B Bond constitutes original issue discount. Original issue discount accrues under a constant yield method. The amount of original issue discount deemed received by the Beneficial Owner of a 2021B Bond will increase the Beneficial Owner's basis in the 2021B Bond.

The amount by which a 2021B Bond Owner's original basis for determining loss on sale or exchange in the applicable 2021B Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium, which the 2021B Beneficial Owner may elect to amortize under Section 171 of the Code. Such amortizable bond premium reduces the 2021B Beneficial Owner's basis in the applicable 2021B Bond (and the amount of taxable interest received) and is deductible for

federal income tax purposes. The basis reduction as a result of the amortization of 2021B Bond premium may result in the 2021B Beneficial Owner realizing a taxable gain when a 2021B Bond is sold by the 2021B Beneficial Owner for an amount equal to or less (under certain circumstances) than the original cost of the 2021B Bond to the 2021B Bond Owner. The 2021B Beneficial Owners that have a basis in the 2021B Bond that is greater than the principal amount of the 2021B Bonds should consult their own tax advisors with respect to whether or not they should elect to amortize such premium under Section 171 of the Code.

In the event of a legal defeasance of a 2021B Bond, such 2021B Bond might be treated as retired and “reissued” for federal tax purposes as of the date of the defeasance, potentially resulting in recognition of taxable gain or loss to the applicable 2021B Beneficial Owner generally equal to the difference between the amount deemed realized from the deemed redemption and reissuance and the 2021B Beneficial Owner’s adjusted tax basis in such 2021B Bond.

The federal tax and State of California personal income tax discussion set forth above with respect to the 2021B Bonds is included for general information only and may not be applicable depending upon a 2021B Beneficial Owner’s particular situation. The ownership and disposal of a 2021B Bond and the accrual or receipt of interest with respect to the 2021B Bond may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences.

A complete copy of the proposed opinion of Bond Counsel is set forth in Appendix D—“FORM OF OPINION OF BOND COUNSEL.”

AUTHORITY LITIGATION

There is no action, lawsuit, proceeding, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body, pending or, to the knowledge of the Authority, threatened against the Authority affecting the existence of the Authority or the titles of its officers to their respective offices or seeking to restrain or to enjoin the sale or delivery of the 2021 Bonds, the application of the proceeds thereof in accordance with the Indenture, or in any way contesting or affecting the action of the Authority contemplated by any of said documents, or in any way contesting the completeness or accuracy of this Official Statement or any amendment or supplement thereto, or contesting the powers of the Authority or its authority with respect to the 2021 Bonds or any action of the Authority contemplated by any of said documents.

See Appendix A—“PANOCHE WATER DISTRICT—LITIGATION” for information with respect to litigation affecting the District.

RATING

S&P Global Ratings, a Standard & Poor’s Financial Services LLC business (“S&P”), has assigned the 2021 Bonds the rating of “BBB+”. There is no assurance that the credit rating given to the 2021 Bonds will be maintained for any period of time or that the rating may not be lowered or withdrawn entirely by S&P, if, in the judgment of S&P, circumstances so warrant. Any downward revision or withdrawal of such rating may have an adverse effect on the market price of the 2021 Bonds. Such rating reflects only the views of S&P, and an explanation of the significance of such rating may be obtained from S&P.

The District has covenanted in a Continuing Disclosure Certificate to file on EMMA, notices of any rating changes on the 2021 Bonds. See the caption “CONTINUING DISCLOSURE UNDERTAKING” below and Appendix F—“FORM OF CONTINUING DISCLOSURE CERTIFICATE.” Notwithstanding such covenant, information relating to rating changes on the 2021 Bonds may be publicly available from S&P prior to such information being provided to the District and prior to the date the District is obligated to file a notice of rating change on the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access system (“EMMA”). Purchasers of the 2021 Bonds are directed to S&P and its website and official media outlets for the most current ratings changes with respect to the 2021 Bonds after the initial issuance of the 2021 Bonds.

In providing a rating on the 2021 Bonds, S&P may have performed independent calculations of coverage ratios using its own internal formulas and methodology which may not reflect the provisions of the 2021 Installment Purchase Agreement. The District makes no representations as to any such calculations, and such calculations should not be construed as a representation by the District as to past or future compliance with any financial covenants, the availability of particular revenues for the payment of Series 2021 Installment Payments or for any other purpose.

UNDERWRITING

The 2021 Bonds will be purchased by the Wells Fargo Bank, National Association (the “Underwriter”), pursuant a Purchase Contract (the “Purchase Contract”), by and among the District, the Authority and the Underwriter. Under the Purchase Contract, the Underwriter has agreed to purchase all, but not less than all, of the 2021A Bonds for an aggregate purchase price of \$10,092,553.33 (representing the principal amount of the 2021 Bonds, less an underwriter’s discount of \$26,709.67 plus original issue premium of \$1,509,263.00) and the 2021B Bonds for an aggregate purchase price of \$8,518,491.96 (representing the principal amount of the 2021 Bonds, less an underwriter’s discount of \$26,508.04). The Purchase Contract provides that the Underwriter will purchase all of the of 2021 Bonds if any are purchased, the obligation to make such a purchase being subject to certain terms and conditions set forth in the Purchase Contract, the approval of certain legal matters by counsel and certain other conditions.

Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association, which conducts its municipal securities sales, trading and underwriting operations through the Wells Fargo Bank, NA Municipal Finance Group, a separately identifiable department of Wells Fargo Bank, National Association, registered with the Securities and Exchange Commission as a municipal securities dealer pursuant to Section 15B(a) of the Securities Exchange Act of 1934.

Wells Fargo Bank, National Association, acting through its Municipal Finance Group (“WFBNA”), the sole underwriter of the Bonds, has entered into an agreement (the “WFA Distribution Agreement”) with its affiliate, Wells Fargo Clearing Services, LLC (which uses the trade name “Wells Fargo Advisors”) (“WFA”), for the distribution of certain municipal securities offerings, including the 2021 Bonds. Pursuant to the WFA Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the 2021 Bonds with WFA. WFBNA has also entered into an agreement (the “WFSLLC Distribution Agreement”) with its affiliate Wells Fargo Securities, LLC (“WFSLLC”), for the distribution of municipal securities offerings, including the 2021 Bonds. Pursuant to the WFSLLC Distribution Agreement, WFBNA pays a portion of WFSLLC’s expenses based on its municipal securities transactions. WFBNA, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

The Underwriter and its affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Underwriter and its affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the District for which they received or will receive customary fees and expenses. In addition, certain affiliates of the Underwriter are lenders, and in some cases agents or managers for the lenders, under credit and liquidity facilities.

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

The initial public offering prices stated on the inside front cover of this Official Statement may be changed from time to time by the Underwriter. The Underwriter may offer and sell the 2021 Bonds to certain dealers (including dealers depositing 2021 Bonds into investment trusts), dealer banks, banks acting as agents and others at prices lower than said public offering prices.

MUNICIPAL ADVISOR

The District has retained Fieldman, Rolapp & Associates, Inc., Irvine, California (the “Municipal Advisor”) as municipal advisor in connection with the issuance of the 2021 Bonds. The Municipal Advisor is not obligated to undertake and has not undertaken to make an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement. The fees being paid to the Municipal Advisor are contingent upon the issuance of the 2021 Bonds.

The Municipal Advisor is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal or other public securities.

CONTINUING DISCLOSURE UNDERTAKING

The District has covenanted in a Continuing Disclosure Certificate for the benefit of the holders and beneficial owners of the 2021 Bonds to provide certain financial information and operating data relating to the District by not later than the 270 days following the end of the District Fiscal Year (currently the District Fiscal Year ends on the last day of February) (the “District Annual Report”), commencing with the report for the District Fiscal Year ending February 28, 2021, and to provide notices of the occurrence of certain enumerated events. The District Annual Report and the notices of enumerated events will be filed by the District with the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access system (“EMMA”). The specific nature of the information to be contained in the District Annual Report and the notice of enumerated events is set forth in Appendix F—“FORM OF CONTINUING DISCLOSURE CERTIFICATE.” These covenants have been made in order to assist the Underwriter in complying with Section (b)(5) of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934. The District has not been subject to the terms of a continuing disclosure undertaking pursuant to Rule 15c2-12 in the last five years.

In order to ensure compliance by the District with its continuing disclosure undertakings in the future, the Board of Directors approved an updated Policy for Disclosure Procedures on March 23, 2021 (the “District Disclosure Procedures”). Pursuant to the District Disclosure Procedures, the General Manager is required to take steps to ensure that continuing disclosure filings are prepared and filed in a timely manner. A copy of the District Disclosure Procedures has been provided to the Underwriter and is available from the General Manager of the District at 52027 W. Althea Ave, Firebaugh, CA 93622, Telephone: (209) 364-6136.

On March 23, 2021, the board of directors of the Authority determined to have the District Disclosure Procedures apply to the Authority to assist in complying with any continuing disclosure undertakings that the Authority may enter into in the future. A copy of the Authority Disclosure Procedures has been provided to the Underwriter and is available from the Executive Director of the Authority at 52027 W Althea Ave, Firebaugh, CA 93622, Telephone: (209) 364-6136.

MISCELLANEOUS

Insofar as any statements made in this Official Statement involve matters of opinion or of estimates, whether or not expressly stated, they are set forth as such and not as representations of fact. No representation is made that any of such statements made will be realized. Neither this Official Statement nor any statement which may have been made verbally or in writing is to be construed as a contract with the Owners of the 2021 Bonds.

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

PANOCHE FINANCING AUTHORITY

By: _____ /s/ John Bennett
Chair, Board of Directors

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APPENDIX A

PANOCHÉ WATER DISTRICT

General

The Panoche Water District (the “District”) was formed in, and has operated continuously since, 1950 under the California Water District Law (being Division 13 of the California Water Code), for the purpose of furnishing irrigation water for agricultural use within the District. The District includes approximately 38,231 acres located on the west side of the San Joaquin Valley in northwestern Fresno and southwestern Merced Counties of which approximately 36,970 are irrigable. The Delta-Mendota Canal, the San Luis Canal and Interstate 5 pass through or are in proximity to the District. The District currently provides agricultural water to approximately 106 landowners and lessees.

The earliest agricultural ventures in the area now included in the District took place prior to 1900 and consisted of the growing of dry farm grain. Significant irrigation by private parties started in the late 1920’s and was accomplished by means of shallow wells.

In the early 1950’s the Delta-Mendota Canal, a major feature of the Central Valley Project (“CVP”), was constructed by the Bureau of Reclamation (“Reclamation”), an agency within the United States Department of the Interior. During and after the construction of the Delta-Mendota Canal, major development of farmland occurred on the west side of the San Joaquin Valley and led to the formation of the District and other water districts in the area. On August 16, 1955 the District entered into a long term 40-year contract, the Contract between the United States of America and Panoche Water District Providing for Water Service (Contract No. 14-06-200-4553), with Reclamation (the “1955 Contract”), for a firm water supply of up to 94,000 acre-feet.

During the 1960’s the State of California and Reclamation undertook a joint effort to build the San Luis Reservoir and San Luis Canal, which was completed in 1968. On August 30, 1974, the District and Reclamation entered into Contract No. 14-20-200-7864A (the “1974 Contract”), superseding the 1955 Contract to allow for additional points of delivery and specifying a 5-year build-out period, after which the Reclamation was obligated to provide up to 94,000 acre-feet per year to the District.

District Powers

The District has broad general powers under the Law to perform all necessary or proper acts, including but not limited to the authority to acquire, plan, construct, maintain, improve, operate and repair necessary works for the transmission and distribution of water for irrigation and other purposes and for any drainage or reclamation of such water; the right of eminent domain; subject to applicable California constitutional limitations, authority to levy assessments or, in lieu thereof, to fix and collect charges for water, including standby charges made to holders of title to land to which water may be made available, whether or not the water is actually used; authority to establish rules and regulations for the sale and distribution of water, including rules for providing that water shall not be furnished to persons against whom there are delinquent water or standby charges; authority to contract with the United States, the State of California and the agencies of either; and the power to join with one or more public agencies, private corporations or other persons for the purpose of carrying out any of the powers of the District.

Governance

The District is governed by a five-member Board of Directors (the “Board”) serving staggered four-year terms. All of the current directors are landowners in the District. The current directors, the date of last appointment and the expiration dates of their terms are set forth below.

Board of Directors

<i>Name</i>	<i>Appointed</i>	<i>Term Expires</i>
John Bennett, President	November 5, 2019	December 5, 2023
Sue Redfern-West, Vice-President	November 5, 2019	December 5, 2023
Mike Stearns, Secretary	November 7, 2017	December 5, 2021
Ross Koda, Director	November 7, 2017	December 5, 2021
Michael Linneman, Director	November 7, 2017	December 5, 2021

On May 25, 2021, and in accordance with California Election Code sections 14050 – 14057 enacted by California Senate Bill 415 (“SB 415”), the Board adopted a plan to move the District’s general elections to even-numbered years on the same date in November as the State-wide general election. The District’s plan must be approved by the Fresno County Board of Supervisors. Through this proposed change, and in accordance with SB 415, the Board adopted a plan to maintain the District’s next general election for November 9, 2021. Therefore, the seats currently held by Directors Koda, Linneman, and Stearns are still up for re-election on November 9, 2021. However, in order to align the District’s general elections with the State-wide general election, the Directors elected to those three seats will serve until 2024, (i.e., a three-year term as opposed what would have been a four-year term), after which the Directors elected to those seats will serve four-year terms. Similarly, the seats currently held by Directors Bennett and Redfern-West will be up for re-election in 2022 instead of 2023, after which the Directors elected to those seats will serve four-year terms.

Management

Ara Azhderian is the General Manager of the District. Mr. Azhderian is responsible for the oversight and management of the daily operations and maintenance of the District, water supply management and representing the District in its external affairs. Mr. Azhderian has worked in the water industry for over 20 years, garnering experience in finance and administration, regulation, litigation, and legislation at the local, state, and federal levels that may affect water management generally and the District specifically. Mr. Azhderian was hired by the District in October 2017 as the General Manager.

From 2004 through 2017, Mr. Azhderian worked for the San Luis & Delta-Mendota Water Authority as its Water Policy Administrator and from 2000 to 2004 as the Watermaster for San Luis Water District. Prior to that time, he was engaged in farming and worked for private parties in farm-related business.

Employee Benefits

The District provides retirement benefits for all of its full-time employees through a defined contribution plan (the “Retirement Plan”). The District acts as Retirement Plan trustee. The Retirement Plan is administered by Hicks Pension Services in Fresno, California using an IRS approved plan document. John Hancock Financial Services is the record keeper of the Retirement Plan and handles all plan investments as well as tracking and reconciling all participant accounts, contributions, and distributions. The outside fiduciary of the Retirement Plan is James M. Shaw AIF, Accredited Investment Fiduciary and Registered Principal of Valley Business Investment Services in Visalia, California. All full-time employees, 21 years or older, are eligible to participate in the plan after six months of full-time service.

The District currently makes an annual discretionary profit-sharing contribution in the amount of 3% of annual gross compensation, subject to a 4-year vesting schedule, as well as a safe harbor matching contribution of 100% of the first 4% of salary deferral. The safe harbor matching contribution is 100% vested at all times.

If the employee terminates employment before fully vesting, forfeiture will take place as of the end of the plan year in which the earlier of the following occurs: 1) the employee incurs five consecutive breaks in service, 2) the employee receives a distribution of the entire vested account balance. Any changes to the rates are approved by the Board. Employees may make voluntary pre-tax salary deferral contributions to the plan subject to Internal Revenue Service limits which combine employer and employee contributions. Total District contributions for the year ended February 29, 2020 were \$184,129, with covered payroll equaling \$2,846,234. The total District contributions for year ended February 28, 2021 were \$286,969, with covered payroll equaling \$2,482,588. The budgeted total District contributions for the year ending February 28, 2022 are \$185,850, with covered payroll equaling \$1,738,229.

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 401(k). The deferred compensation plan, which is available to all full-time employees, permits them to defer a portion of their current salary into future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

For additional information with respect to District employee benefits see Notes 9 and 10 to the District financial statements for the year ended February 29, 2020 set forth in Appendix B hereto.

Other Post-Employment Benefits

The District does not provide post-employment health care or other non-pension benefits to its employees.

Employees

The District currently employs 26 persons, 12 of whom work in the administrative division and 14 in operations. No employees of the District are currently represented by a union. The International Brotherhood of Electrical Workers Union 1245 has petitioned the California Public Employment Relations Board to represent approximately 16 employees. As of the date of this Official Statement the petition has not yet been approved by the California Public Employment Relations Board; however, the District anticipates that the petition will be approved within the next sixty days. The District has never been the subject of a strike or other adverse labor action directly and adversely affecting the operations of the District.

District Budgeting Process

Annual budgets are approved and adopted each year by the District's Board. The Board works with District staff to develop a budget in accordance with the District's Accounting Policies & Procedures Manual. The annual budget has two major components: the capital budget and the operating budget. Capital budgeting is used for evaluating and ranking potential expenditures or investments that are significant. The operating budget is used to estimate annual revenues and expenditures. Budgeting control is maintained by the District's Controller. Once approved, the Board may amend the adopted budget when unexpended modifications are required in estimated revenues or expenditures.

Annually, during the budget process, the District evaluates forthcoming operations and maintenance costs and estimates irrigation water deliveries to establish a water rate suitable of fully recovering the District's estimated costs of operating. During the Fiscal Year, budget amendments and adjustments may be made to reflect changes in financial conditions, water supply and cost, programs and/or authorizing laws that affect

ongoing expenditures. The budget cycle is completed with the review and alignment of staff work plans to be consistent with the resource allocation made in the adopted budget.

The current budget for Fiscal Year 2021-22 was approved by the Board on May 11, 2021. As of June 22, 2021, no material amendment to such budget has been considered. The District expects to amend the Fiscal Year 2021-22 budget to reflect a projected increase in revenues and expenses as a result of increased purchases of supplemental water.

For additional information concerning the District budget process see in Note 1 to the financial statements of the District for the year ending February 29, 2020.

District Insurance

The District maintains general liability insurance as well as a variety of supplemental insurances through the Association of California Water Agencies-Joint Powers Insurance Authority (“ACWA-JPIA”). ACWA-JPIA is an intergovernmental risk-pooling self-insurance authority, created under provisions of California Government Code Sections 6500 et. seq. ACWA-JPIA’s purpose is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage.

The ACWA-JPIA includes general, automobile, and employment practices & public officials’ liability coverage. Coverage against third-party claims for the District includes its directors, employees, and volunteers. ACWA-JPIA pools provide coverage for the first \$5 million of claims, and purchases excess coverage with limit up to \$55 million with aggregated policy limits.

For property losses, the District has coverage up to the replacement value of the property with a \$2,500 deductible per occurrence on specified buildings, fixed equipment and contents, actual cash value on specified mobile equipment with a \$2,500 deductible per occurrence and actual cash value on specified vehicles with a \$2,500 deductible per occurrence. ACWA-JPIA is self-insured up to \$100,000 per loss and has purchased re-insurance coverage up to a \$500,000,000 limit per occurrence. Certain fixed equipment is covered for accidental mechanical breakdown up to sub-limit of \$100,000,000 with deductible \$25,000 to \$50,000 depending on type of equipment.

For workers’ compensation, the District is covered for statutory limits, and employer’s liability is covered up to \$2,000,000 per accident and \$2,000,000 per disease. ACWA-JPIA is self-insured up to \$2,000,000 and excess insurance coverage has been purchased by ACWA-JPIA.

The District’s employee dishonesty/crime supplement coverage is up to \$100,000 per occurrence with a \$1,000 deductible for employee dishonesty, forgery or alteration and computer fraud. The program covers all employees, the Board of Directors, and the Treasurer.

The District also carries coverage for cyber liability and cyber security with a limit up to \$5,000,000.

For additional information the District risk management program, see Note 12 to the District financial statements for the year ended February 29, 2020 set forth in Appendix B hereto.

Land and Land Use

The District encompasses an area of approximately 38,231 acres, approximately 36,970 of such acres are irrigable. Most of the land in the District is currently used for agricultural production. Land within the District is relatively level, with elevations from 375 feet above sea level in the southwestern part of the District to 155 feet above sea level in the northeastern part.

The District has hot, dry summers and historically tends to have cool, moist winters. Average rainfall is approximately ten inches a year, and the frost-free season at Firebaugh, is approximately 338 days.

In Fiscal Year 2021, growers in the District planted and harvested crops on approximately 27,720 acres. Set forth below are the ten crops with the highest value for Fiscal Year 2021 (the most recent year for which information is available) and the approximate value thereof.

**Panoche Water District
Fiscal Year 2021 Crop Values**

<i>Crop</i>	<i>Acres Planted</i>	<i>Value</i>
Pistachios	8,507	\$ 48,558,820
Almonds	2,293	22,396,090
Tomatoes ⁽¹⁾	4,663	22,355,267
Grapes ⁽²⁾	3,036	15,369,274
Melons ⁽³⁾	1,459	11,122,963
Alfalfa ⁽⁴⁾	2,170	3,354,059
Pomegranates	356	2,823,080
Prima Cotton	484	1,115,299
Onions ⁽⁵⁾	153	580,023
Asparagus	68	493,688
		<u>\$ 128,168,563</u>

⁽¹⁾ Includes processing and fresh market

⁽²⁾ Wine

⁽³⁾ Mixed varieties

⁽⁴⁾ Includes hay and seed

⁽⁵⁾ Processing

Source: District.

Based on the most recently available data, the total gross value of the top ten crops grown in the District during Fiscal Year 2021 was approximately \$128,168,563.

District Facilities

The District receives its water from the CVP through the Delta-Mendota Canal, owned by Reclamation, and the San Luis Canal, owned by Reclamation and jointly operated by Reclamation and the Department of Water Resources of the State of California (“DWR”). The CVP facilities were built by Reclamation and the United States Army Corps of Engineers and are currently managed by Reclamation. The CVP consists of a number of major dams and canals beginning at Shasta Dam on the Sacramento River and ending on the Kern River near the City of Bakersfield, a distance of over 400 miles. The CVP delivers approximately eight million acre-feet of water annually.

The District presently operates and maintains 19 pumping plants, approximately 39 miles of canal and 25 miles of pipelines. The District also maintains an office, service yard and maintenance shop.

District Water Supply

CVP Contract Water. The District’s principal source of water is the CVP. The District’s first long-term water service contract with the United States, the 1955 Contract, was executed on August 16, 1955, which provided for the delivery on an annual basis of varying quantities of water, up to 94,000 acre-feet. The 1955 Contract was superseded by a new contract in 1974, which added the San Luis Canal as a delivery source in addition to the Delta-Mendota Canal and after a 5-year buildout, also provided up to 94,000 acre-feet. The 1974 Contract expired on December 31, 2008. Since the expiration of the 1974 Contract, the District has

entered into interim renewal contracts with Reclamation which were on substantially the same terms as the 1974 Contract. The District's current interim renewal contract (No. 14-06-200-7864A-IR7) was entered into in February 2021 and remained in effect until the Contract Between the United States and Panoche Water District Providing for Project Water Service, San Luis Unit and Delta Division and Facilities Repayment (also referred to herein as the "9(d) Contract"), became effective. The 9(d) Contract provides the District with a perpetual contractual right up to 94,000 acre-feet of CVP water. The District executed and delivered the 9(d) Contract on January 14, 2021, and became effective on July 1, 2021, and the District expects to apply a portion of the proceeds of the 2021 Bonds to repay the District's then remaining capital repayment obligation in a lump sum shortly after the issuance of the 2021 Bonds. See the captions "THE PROJECT" in the forepart of this Official Statement and "—9(d) Contract" below for further information with respect to the 9(d) Contract.

The District expects its near-term CVP water supply outlook to be limited. The annual average delivery capability of the CVP has been constrained because of the application of federal and State laws, including the Endangered Species Act, the Central Valley Project Improvement Act (the "CVPIA"), the Clean Water Act and the Porter-Cologne Water Quality Control Act. Due to existing regulatory constraints, the District's average allocation of CVP water from 2010 to 2020 was approximately 40%. In light of recent changes in the application of certain of these laws and how the CVP and State Water Project ("SWP") would share responsibility for meeting water quality and environmental flow obligations imposed by federal and state regulatory agencies, the District projects its long-term average allocation from the CVP would slightly improve.

In December 2018, the United States and the State executed an Addendum to the Agreement Between the United States of America and DWR for Coordinated Operation of the Central Valley Project and SWP, which amended the Coordinated Operation Agreement ("COA") originally signed in 1986. The Addendum amended four key elements of COA to reflect the evolved manner in which the CVP and SWP were operated since COA was originally signed: Article 6(c) in-basin uses; Article 10(b) CVP use of Harvey O. Banks ("Banks") Pumping Plant; Article 10(i) export restrictions; and Article 14(a) the periodic review.

Also, in October 2019, the United States Fish and Wildlife Service ("FWS") and the United States National Marine Fisheries Service ("NMFS") issued new biological opinions pursuant to section 7 of the Endangered Species Act for coordinated operations of the CVP and SWP, which were adopted by Reclamation in February 2020. These biological opinions replaced biological opinions issued in 2008 and 2009 by the FWS and NMFS, respectively. Through a record of decision issued by Reclamation, Reclamation decided to operate the CVP, in coordination with SWP, as analyzed in the October 2019 biological opinions.

As a result of the COA Addendum and the operations analyzed under the October 2019 biological opinions, the District estimates its long-term average allocation from the CVP could increase under certain conditions, including real-time adaptive management. See the caption "*—Initiation of Reconsultation Under Section 7.*" (See also the caption "LITIGATION" detailing the judicial challenges to the Addendum, the 2019 biological opinions, and Reclamation's acceptance of the 2019 biological opinions, including a preliminary injunction issued with respect to the 2019 biological opinions and Reclamation's acceptance of the 2019 biological opinions.) Both the District and individual water users located within the District would continue to acquire supplemental water. The quantities of such supplemental water acquisitions would fluctuate with hydrology and price but remain a significant source of water in all but the wettest years. The demand for quantities of acquired supplemental water would likely decrease as hydrology improves, but the ability to convey it from north of the Delta could continue to be constrained due to regulatory or conveyance capacity limitations.

The effect of the Sustainable Groundwater Management Act of 2014 ("SGMA") on the competition for and on the willingness to sell water that the District purchases as supplemental water is unknown. Additionally, individual water users would continue to pump groundwater at rates that comply with the Groundwater Sustainability Plan that was prepared pursuant to the Sustainable Groundwater Management Act. See the captions "—Supplemental Water" and "—Effect of New Groundwater Rules." The District expects

that SGMA will impact the availability of supplemental water and groundwater for individual users; however, the District does not project the impact to occur earlier than Fiscal Year 2023.

On or about March 27, 2020, and pursuant to the California Environmental Quality Act (“CEQA”), DWR certified an Environmental Impact Report (“EIR”) and issued a Notice of Determination for the long-term operation of the SWP. The California Department of Fish and Wildlife issued DWR a California Endangered Species Act incidental take permit (“ITP”) for those operations on March 31, 2020. DWR’s operation of the SWP, consistent with the conditions of approval imposed through the ITP, are likely to affect the coordinated operations of the CVP and SWP. Whether and how those affects impact the District’s water supply are uncertain at this time.

On January 20, 2021, President Joseph R. Biden Jr. issued the Executive Order on Protecting Public Health and the Environment and Restoring Science to Tackle the Climate Crisis (the “Executive Order”). Pursuant to the Executive Order, the White House, among other things, directed the National Marine Fisheries Service, National Oceanic and Atmospheric Administration, United States Department of Commerce and the United States Fish and Wildlife Service, United States Department of the Interior to review the 2019 biological opinions. The District cannot currently predict the timing of the review of the 2019 biological opinions by such agencies. The District also cannot currently predict whether the review undertaken pursuant to the Executive Order will result in revisions to the 2019 biological opinions or whether revisions, if any, would affect the District’s water supply. The District, however, does not believe that any such revisions would materially adversely affect the ability of the District to pay the Series 2021 Installment Payments because the District has not assumed the operation of the CVP in accordance with the 2019 biological opinions for purposes of the District’s planning or projections and the District projects the proceeds of the Contractual Obligation Assessments to be sufficient for the payment of the Series 2021 Installment Payments as they become due.

9(d) Contract. On December 16, 2016, the 114th Congress of the United States of America enacted the Water Infrastructure Improvements for the Nation Act (Pub. L. 114-322, 130 Stat. 1628) (“WIIN Act”). Section 4011(a)(1) of the WIIN Act provides that: “upon request of the contractor, the Secretary of the Interior shall convert any water service contract in effect on the date of enactment of this subtitle and between the United States and a water users’ association to allow for prepayment of the repayment contract pursuant to paragraph (2) under mutually agreeable terms and conditions.” Section 4011(a)(1) of the WIIN Act further provides that: “the manner of conversion under this paragraph shall be as follows: (A) Water service contracts that were entered into under section (e) of the Act of August 4, 1939 (53 Stat. 1196), to be converted under this section shall be converted to repayment contracts under section 9(d) of that Act (53 Stat. 1195)”; and “(B) Water service contracts that were entered under subsection (c)(2) of section 9 of the Act of August 4, 1939 (53 Stat. 1194), to be converted under this section shall be converted to a contract under subsection (c)(1) of section 9 of that Act (53 Stat. 1195).”

Pursuant to the WIIN Act, the United States and the District negotiated terms and conditions that converted the District’s interim renewal contract to a repayment contract, and those terms and conditions are reflected in the 9(d) Contract. The 9(d) Contract also reflects the current standard terms and conditions required by the Reclamation Manual. Reclamation executed and delivered the 9(d) Contract on January 14, 2021.

The 9(d) Contract became effective on July 1, 2021, at which time it superseded the District’s interim renewal contract. The 9(d) Contract has no termination date and remains in effect as long as the District pays applicable rates and charges and complies with the other terms and conditions of the 9(d) Contract, consistent with applicable law. Shortly after the issuance of the 2021 Bonds, the District expects to apply a portion of the proceeds of the 2021 Bonds to repay the District’s then remaining capital repayment obligation, as provided under the 9(d) Contract. See the caption “THE PROJECT” in the forepart of this Official Statement. Upon Reclamation confirming full payment of such repayment obligation, certain restrictions on the receipt and pricing of CVP water based on the landholding of each entity or individual and administrative costs for the

District will be eliminated, as well as restrictions on delivery of water to any lands that were ineligible to receive water because such lands constituted “excess lands” under federal reclamation law will be eliminated, as described under the caption “—Land and Land Use.”

While the 9(d) Contract will provide the District with a perpetual contractual right up to 94,000 acre-feet of CVP water, actual deliveries in any year remain subject to “Conditions of Shortage,” which are described in the 9(d) Contract.

Under the 9(d) Contract, ongoing receipt and delivery of water to the District will continue with no expansion of service and no new facilities constructed because the District will deliver the water received under the 9(d) Contract: (1) to lands within the District’s boundaries for beneficial use and that have been in production, and (2) through existing facilities.

Although the specific terms of the 9(d) Contract are set forth within its text, its provisions provide, in part, that:

(a) it shall be effective July 1, 2021, and shall continue so long as the District pays applicable rates and charges, as defined therein, and consistent with Section 9(d) or 9(c)(1) of the Act of August 4, 1939 (53 Stat. 1195) as applicable, and applicable law;

(b) the District shall comply with specified repayment obligations to the United States based upon the existing capital obligations and water delivered in accordance with the WIIN Act;

(c) the District shall receive a water supply, subject to the provisions of the 9(d) Contract and consistent with all applicable State water rights, permits and licenses and federal law, and which the District shall schedule and pay for pursuant to the terms of the 9(d) Contract;

(d) the parties shall analyze potential impacts to the water supply, and delivery thereof, based upon land retirement;

(e) the District shall utilize CVP water in accordance with all applicable legal requirements and make reasonable and beneficial use of such water; and

(f) the parties shall abide by specified provisions related to the transfer of water, additional points of diversion, the delivery of non-CVP water, the operation and maintenance of facilities, and the allocation of water when a condition of shortage exists.

Supplemental Water. Since annual demand for water in the District can exceed its CVP supplies, the District makes up the shortfall through supplemental water purchases through both short and long-term agreements of the District, from participation in transfers through the San Luis & Delta-Mendota Water Authority (the “Water Authority”) and from various other holders of water entitlements on the open market. In addition, at times, the District makes purchases of supplemental water at the request of its customers. The District makes supplemental water available to growers generally as part of a pool or directly on a subscription basis. Unsubscribed supplemental water is pooled and made available to all water users at an aggregate price on a pro-rata acreage basis. Subscribed supplemental water is only available to subscription holders on a pro-rata participation basis at the direct cost of the supplemental water. Since 2015, the quantity of supplemental surface water acquired by the District has ranged from a low of 12,077 acre-feet to a high of almost 35,756 acre-feet of water. Supplemental water acquired by the District in Fiscal Year 2020-21 was approximately 17,756 acre-feet. Due to the permanent nature of many of the crops grown in much of the District, future demand for supplemental water will likely be consistent with historic demands. The District has secured and expects to continue to pursue multi-year purchase agreements for supplemental water projects outside of the District directly or through the Water Authority, of which the District is a member.

The District is currently a party to five multi-year contracts for the purchase of supplemental water which, on average, can yield up to approximately 24,216 acre-feet per year. Yield fluctuates as contracts are renewed or expire, as water and/or commodity prices fluctuate and as new projects are commissioned.

Sustainable Groundwater Management Act. On September 16, 2014, the California Governor signed Assembly Bill No. 1739 and Senate Bill Nos. 1168 and 1319 (collectively, the Sustainable Groundwater Management Act, or “SGMA”) into law. The SGMA constitutes a legislative effort to achieve sustainability thereby bringing each affected basin or sub-basin into balance on a state-wide basis through groundwater regulation.

On July 9, 2019, the District adopted a resolution authorizing participation as a member of the Central Delta-Mendota Groundwater Sustainability Agency Joint Powers Agreement, which is the groundwater sustainability agency for the Delta-Mendota Sub-basin, which includes all of the lands in the District. The Central Delta-Mendota Groundwater Sustainability Joint Powers Authority has ten agency members, including the District, and was formed to serve as the groundwater sustainability agency for such agencies respective territories. On December 10, 2019 the District authorized its representatives to cast a vote in support of the adoption of the Northern & Central Delta-Mendota Groundwater Sustainability Plan for the Central Delta-Mendota Region which was submitted to DWR in compliance with the statutory deadline. The Central Delta-Mendota Groundwater Sustainability Joint Powers Authority is currently implementing policies and procedures consistent with the Northern & Central Delta-Mendota Groundwater Sustainability Plan.

Groundwater within the District tends to have higher salinity than surface water and is generally pumped only as needed to supplement surface supplies. However, groundwater does provide a significant source of water transferred into the District as supplemental supply. Also, there are a number of landowners that have access to groundwater and the implementation of SGMA could have a significant impact on those landowners. Such landowners may need to change the types of crops grown and rely more on supplemental surface water. The District expects that its investment in long term water supply projects will offset the impact of SGMA. See the caption “INVESTMENT CONSIDERATIONS—Sustainable Groundwater Management Act.”

State Water Resources Control Board Update on the Water Quality Control Plan. The SWRCB is in the process of updating the Water Quality Control Plan for the San Francisco Bay/Sacramento-San Joaquin Delta Estuary (“Bay-Delta Plan”). The SWRCB has segregated this process into two phases. Phase 1 involves updating San Joaquin River flow and southern Delta water quality requirements included in the Bay-Delta Plan. Phase 2 involves comprehensive changes to the other sections of the Bay-Delta Plan, to protect beneficial uses not addressed in Phase 1, and may address Delta outflows, Sacramento River inflows, Suisun Marsh salinity, Delta Cross Channel Gate closure, export limits, and reverse flows. Once those two phases are completed, the SWRCB will need to take steps to implement the Bay-Delta Plan.

On December 12, 2018, the SWRCB adopted new water quality objectives for the San Joaquin River’s major tributaries for the protection of fish and wildlife, and revised the water quality objectives for southern Delta salinity (the “Phase 1 Amendments”). The new objectives increase flow on the San Joaquin River and its tributaries to a range of 30 to 50 percent of the unimpaired flow levels, with a starting point of 40 percent of unimpaired flow from February through June. The SWRCB has defined unimpaired flow as the water production of a river basin, unaltered by upstream diversions, storage, or by export or import of water to or from other watersheds. For southern Delta salinity, the SWRCB established a 1.0 Electrical Conductivity (EC) objective throughout the year for the southern Delta for the protection of agricultural beneficial uses and provided the water rights of the DWR and Reclamation are conditioned upon implementation of the southern Delta salinity objectives to protect agricultural beneficial uses. Notwithstanding the statement, the SWRCB indicated an intent to take additional steps to implement the new and revised water quality objectives, including through water rights proceedings.

On October 19, 2016, the SWRCB staff released a working draft Scientific Basis Report (the “SBR”) for fisheries and flows in the Sacramento River and Bay-Delta – Phase 2. The draft SBR identifies the science that the SWRCB staff intended to rely on in considering potential changes to the Bay-Delta Plan to enhance flows in and out of the Sacramento River basin and within the Bay-Delta to protect fish and wildlife. The SBR was finalized in October 2017 and analyzes possible effects of modified requirements for fish and wildlife protection on other beneficial uses of water, including alternatives and economic impacts.

In July 2018, the SWRCB staff released a Framework for the Sacramento/Delta Update to the Bay-Delta Plan (Phase 2 Framework) that described changes SWRCB staff intended to propose through a formal proposal and supporting environmental document. The proposed changes include unimpaired flow requirements for the Sacramento River and its salmon-bearing tributaries that range between 45 and 65 percent, with a starting point of 55 percent, a new narrative cold water habitat objective, and new objectives for fall Delta outflows and interior Delta flows. A decision on Phase 2 will not be made until SWRCB staff has completed their draft staff report and the Substitute Environmental Document and the public has been provided an opportunity to comment.

On December 12, 2018, during the SWRCB hearing to consider adoption of the Phase 1 Amendments, the Directors of DWR and the California Department of Fish and Wildlife presented a framework for a Voluntary Agreement among DWR, the California Department of Fish and Wildlife, water users in the San Joaquin and Sacramento watersheds, SWP and CVP contractors, and members of the conservation community that would provide more modest additional flows for fish and wildlife combined with commitments to contribute substantial funding for structural habitat improvements and scientific investigations. At the hearing, the SWRCB directed its staff to provide appropriate technical and regulatory information to assist the California Natural Resources Agency in completing the agreement as a potential alternative for a future Bay-Delta Plan update. Since December 2018, the California Natural Resources Agency has been working with federal agencies, other state agencies, local agencies and non-governmental organizations on a Voluntary Agreement. If the Voluntary Agreement is successfully negotiated and approved by the SWRCB, it is likely that a charge of \$7.00 - \$10.00 per acre-foot will be imposed on water delivered by the CVP to the District, as well as other public water agencies that acquire water from the CVP and SWP. This charge will be used to generate revenue to purchase water for instream and Delta outflow and to implement the non-flow and adaptive management programs contemplated by the Voluntary Agreement. Given the state of the SWRCB Phase 2 update and the effort to negotiate a Voluntary Agreement, it is uncertain whether implementation of the updated Bay-Delta Plan will have a positive or negative impact on the District’s surface water supply.

Initiation of Reconsultation Under Section 7. Operations of the CVP have been constrained by biological opinions on the long-term coordinated operations of the CVP and the SWP issued under Section 7 of the Endangered Species Act. In 2008 and 2009, the FWS and NMFS issued biological opinions on the coordinated long-term operations of the CVP and SWP, respectively. On August 2, 2016, Reclamation and DWR requested initiation of re-consultation with the FWS and NMFS, under Section 7 of the Endangered Species Act. These requests were based on new information related to multiple years of drought, recent data demonstrating extremely low population levels of listed-salmonid, including the endangered winter-run Chinook salmon, and new information available and expected to become available as a result of ongoing work through collaborative science processes. During the reinitiated consultation, the CVP and SWP operated pursuant to the requirements of the 2008 biological opinion and 2009 biological opinion. Reclamation completed re-consultation on new biological opinions from FWS and NMFS to protect threatened and endangered species issued under Section 7 of the Endangered Species Act and the Record of Decision (“ROD”) on the Long-Term Operations of the CVP and SWP was signed by Reclamation in February 2020. It is anticipated that since the ROD is based on new biological opinions issued in October 2019, the CVP and SWP operators will have more operational flexibility in order to manage the CVP and SWP to avoid jeopardizing listed species while also improving the opportunity to deliver the District’s water supply. There can be no assurance that the local supply for water service provided by the District will be maintained at levels described under the caption “—Historic Water Sources.” See the caption “LITIGATION” for a discussion of judicial challenges to the 2019 biological opinions, and Reclamation’s acceptance of the 2019 biological

opinions, including a preliminary injunction issued with respect to the 2019 biological opinions and Reclamation’s acceptance of the 2019 biological opinions.

Historic Water Deliveries

The District records the volume of water delivered in the District. Over the past five years, such deliveries have averaged approximately 43,905 acre-feet of surface water per year. The District owns one groundwater well that is operated only in severe water shortage conditions. Historically, the District has also received some well water pumped from the Drainage District. In the past five years, Drainage District wells provided 2,078 acre-feet in Fiscal Year 2016-17 and 338 acre-feet in Fiscal Year 2020-21.

The following table summarizes such water deliveries for the District for the most recent five fiscal years. Deliveries vary significantly based on the quantities of water available for delivery to the District from Reclamation and the quantity of water transferred to the District by other parties. Over the past ten years, Reclamation allocations to the District have ranged from a low of 0% of the Contract amount in 2014 and 2015 to 100% of the Contract amount in 2017. In certain years, the District’s ability to deliver the full amount of its allocation of CVP water may be affected by a number of factors including, but not limited to, loss of water during transport, ability to take full amount of available water, limited storage capacity for excess water, the sale of water and certain other factors.

For Fiscal Year 2021-22 (Water Year 2021), Reclamation has announced an allocation of approximately 0% of the Contract amount to the District.

**PANOCHE WATER DISTRICT
Historic Water Deliveries
(Acre-Feet)**

<i>Fiscal Year</i>	<i>Direct Service Delta- Mendota Canal</i>	<i>Direct Service San Luis Canal</i>	<i>Direct Connection to District⁽¹⁾</i>	<i>Total</i>
2020-21	6,487	28,907	7,144	42,538
2019-20	14,995	30,739	9,400	55,134
2018-19	10,785	27,269	6,822	44,876
2017-18	17,680	33,019	4,864	55,563
2016-17	94	20,040	1,280	21,414

⁽¹⁾ Includes direct connections from Central California Irrigation District and Firebaugh Canal Water District.
Source: District.

Projected Water Deliveries

The District estimates that water deliveries for the District for the current and next four fiscal years will be as set forth below. For planning purposes, the District currently projects on average approximately 72% of deliveries would be derived from the CVP contract and the remaining 28% of deliveries would come from transfers of other water. Such amounts will vary from year-to-year as described herein and such variations may be material.

**PANOCHE WATER DISTRICT
Projected Average Annual Water Deliveries
(Acre-Feet)**

<i>Fiscal Year</i>	<i>Water Deliveries in District</i>	<i>Number of District Landowners and Lessees</i>
2021-22 ⁽¹⁾	40,000	106
2022-23	52,000	108
2023-24	52,000	108
2024-25	52,000	108
2025-26	52,000	108

⁽¹⁾ Reflects 0% allocation of the Contract amount of CVP water to the District in Fiscal Year 2021-22, water carried over from prior Fiscal Years and supplemental water purchases as described under the caption “—District Water Supply-Supplemental Water.”

Source: The District

Historic Water Sources

The District, the Water Authority and DWR records the volume of water delivered to the District from its sources of supply. The following table summarizes the District’s sources of water supply and the amount of water received by the District from such sources for the most recent five Fiscal Years.

**PANOCHE WATER DISTRICT
Historic Water Sources
(Acre-Feet)**

<i>Fiscal Year</i>	<i>CVP Contract Water⁽¹⁾</i>	<i>Supplemental Water⁽²⁾</i>	<i>Total Water Sources⁽³⁾</i>
2020-21	16,590	30,820	47,410
2019-20	41,769	17,675	59,444
2018-19	26,034	23,701	49,735
2017-18	50,692	9,072	59,764
2016-17	916	41,299	42,215

⁽¹⁾ May include rescheduled CVP water from previous Fiscal Years.

⁽²⁾ Includes supplemental surface water acquired by the District and acquired by water users independent of the District, and rescheduled water from the previous Fiscal Year. Does not match total from the “Supplemental Water Supplies Acquired” table under the caption “—District Water Supply—Supplemental Water” because supplemental water acquired may not be used in the same Fiscal Year that such supplemental water is acquired.

⁽³⁾ Does not include water transferred to other districts.

Source: District.

CVP contract water deliveries have varied dramatically from year to year as a result of variances in precipitation, CVP storage and State and federal regulatory actions.

Projected Water Sources

The following table lists the District’s estimated sources of water supply for the District and the estimated amounts of water anticipated from each source for the current and next four Fiscal Years. The historic 10-year average CVP allocation for the District, which does not take into account the projected Fiscal Year 2021-22 allocation, is approximately 40%. During the last 10 years, actual allocations of CVP water have varied dramatically from 0% to 100%. For financial planning purposes, the District’s projects a 40% CVP allocation even though the District expects to receive allocations on an annual basis based on precipitation, regulatory action and other factors. See the captions “—Initiation of Reconsultation Under Section 7” and “INVESTMENT CONSIDERATIONS—Regulatory Constraints on CVP Operations,” as such regulatory actions may have a materially adverse effect on the District’s water supply.

The District’s CVP contract water entitlements will vary from year to year as described herein, and such variations may be material. Reduced CVP contract water deliveries may result in an increase in supplemental water purchases. Set forth below is projected water sources for the current Fiscal Year and next four Fiscal Years.

**PANOCHE WATER DISTRICT
Projected Water Sources
(Acre-Feet)**

<i>Fiscal Year</i>	<i>CVP Contract Water⁽¹⁾</i>	<i>Supplemental Water⁽²⁾</i>	<i>Total Water Sources</i>
2021-22 ⁽³⁾	13,610	26,773	40,383
2022-23	37,600	14,400	52,000
2023-24	37,600	14,400	52,000
2024-25	37,600	14,400	52,000
2025-26	37,600	14,400	52,000

⁽¹⁾ Includes CVP water allocated in the current year and rescheduled water from the previous Fiscal Year.
⁽²⁾ Includes supplemental surface water acquired by the District and acquired by water users independent of the District, and rescheduled water from the previous Fiscal Year.
⁽³⁾ Reflects actual amounts through May 31, 2021 and projected amounts for the remainder of Fiscal Year 2022. Assumes a 0% allocation for CVP Contract water entitlements.
Source: District.

See the caption “INVESTMENT CONSIDERATIONS—Natural Disasters and Seismic Conditions—Drought” for a discussion of an emergency regulation adopted by the SWRCB authorizing the curtailment of diversions from the Delta and its tributaries by the Deputy Director of Water Rights.

Historic Supplemental Water Supply Acquisitions

Set forth below is a table showing supplemental surface water and groundwater supplies acquired or pumped by the District and the District’s water users in Fiscal Years 2016-17 to 2020-21.

Supplemental Water Supplies Acquired (Acre-feet)

<i>Fiscal Year</i>	<i>Supplemental Water Acquired by District⁽¹⁾</i>	<i>Supplemental Water Acquired by Water Users⁽²⁾</i>	<i>Groundwater Supplies Pumped by Water Users⁽³⁾</i>	<i>Total⁽⁴⁾</i>
2020-21	17,756	8,037	2,460	28,253
2019-20	13,415	0	0	13,415
2018-19	19,463	1,304	217	20,984
2017-18	12,077	2,024	0	14,101
2016-17	35,756	979	1,856	38,591

(1) Supplemental water acquired by the District includes both surface and groundwater supplies, including groundwater developed by the District and the Drainage District wells.

(2) Supplemental water acquired by water users are quantities transferred into the District by and for specific accounts.

(3) Groundwater supplies pumped by water users only accounts for the groundwater using District facilities for conveyance. Water users pumping from wells for on-farm use is not accounted for by the District and is in addition to the quantities listed above.

(4) Total may not match the supplemental water column from the “Historic Water Sources” table under the caption “—Historic Water Sources” because supplemental water acquired may not be used in the same Fiscal Year that such supplemental water is acquired.

Source: The District

Cost of CVP Contract Water

Rates paid by the District to Reclamation are for CVP water actually delivered to the District. The rates are determined by Reclamation pursuant to the provisions of federal reclamation law. Under federal reclamation law, there are today two water rates applicable to agricultural water use, the “Cost of Service rate” and the “Full Cost rate.” In addition, Reclamation imposes a “Municipal & Industrial rate” for CVP water used for municipal and industrial purposes and imposes specific “fund” charges on all water delivered to the District.

1. Cost of Service rate: The Cost of Service rate is the charge per acre/foot necessary to recover Reclamation’s cost of delivering the water to the District. The Cost of Service rate is designed by Reclamation to recover the District’s share of allocated annual operations and maintenance costs, capital costs over the authorized repayment period, and deficit costs over the repayment period. Under Public Law 99-546, the authorized repayment period for allocated CVP capital costs ends in 2030, and Reclamation calculates the capital component of the Cost of Service rate by dividing the District’s share of the outstanding capital obligation by projected water deliveries through the end of the repayment period. The capital component in the Cost of Service rate is non-interest bearing. Upon repayment of the District’s existing capital repayment obligation pursuant to the 9(d) Contract, the Cost of Service rate paid by the District for CVP water will no longer include a capital component. Construction costs for CVP facilities or other capitalized costs incurred after the effective date of the 9(d) Contract or not assigned to the District prior to execution of the 9(d) Contract will be paid to the United States pursuant to a separate agreement between the District and the United States within the timeframe prescribed by the WIIN Act. When the B. F. Sisk Dam Safety of Dams Modification Project is complete (which is currently expected to occur mid 2026), Reclamation will assign reimbursable capital costs based on its Cost Allocation methodology. The cost (est. \$1.5 billion) will be split (44/56) between the United States and the State based on the respective share of storage for each. The federal share that is reimbursable is anticipated to be about 15 percent, with the irrigation purpose receiving about 81

percent. Certain reimbursable capital costs will be proportionally assigned to the District’s water rates. Folsom Reservoir is undergoing Safety of Dams Modifications as well. Similarly, 15 percent of the cost (est. \$500,000,000 in 2010) is reimbursable, with the irrigation purpose receiving about 86.5 percent. Certain reimbursable capital costs will be proportionally assigned to the District’s water rates.

2. Full Cost rates: Under the Reclamation Reform Act of 1982 (Public Law 97-293), water users that lease more than 960 acres of land receiving water under the federal Reclamation Law must pay the Full Cost rate, which includes an interest component on outstanding capital. Under the provisions of the 9(d) Contract, beginning in Fiscal Year 2023, the District will no longer be charged the Full Cost rate.

3. Municipal & Industrial rate: The District provides approximately 250 acre-feet per year, on average, for incidental non-irrigation water service, for which a separate Municipal & Industrial rate applies, which includes an interest component on the capital component.

4. Restoration Fund charge: Section 3407(c) of the CVPIA imposes on the District a fee on each acre foot of CVP contract water delivered by the District in order to fund payments in the Restoration Fund established to carry out the fish and wildlife restoration goals of the CVPIA.

5. Trinity Public Utility District Assessment charge: Under Public Law 106-377, Reclamation imposes an indexed fee per year on the District for payment to the Trinity Public Utility District, which fee amounted to \$0.12 in Fiscal Year 2020-21.

The tables below sets forth the Cost of Service rate, the Full Cost rate, and Restoration Fund charge and the Trinity Public Utility District Assessment charge per acre foot for Fiscal Years 2016-17 through 2020-21 for CVP water from the San Luis Canal and the Delta-Mendota Canal.

**United States Bureau of Reclamation
Annual O&M Rates**

San Luis Canal

<i>Fiscal Year</i>	<i>Cost of Service Rate</i>	<i>Full Cost Rate 202(3)</i>	<i>Full Cost Rate 205(a)(3)</i>	<i>Restoration Fund Charge⁽¹⁾</i>	<i>Trinity Public Utility District Assessment Charge</i>
2020-21	\$ 81.91	\$ 134.07	\$ 168.82	\$10.91	\$0.12
2019-20	97.96	135.67	169.88	10.63	0.30
2018-19	82.83	113.48	142.63	10.47	0.30
2017-18	89.75	121.99	151.54	10.23	0.30
2016-17	73.12	106.56	133.86	10.21	0.30

⁽¹⁾ Restoration Fund charges are made on a federal fiscal year basis.
Source: District.

Delta-Mendota Canal

<i>Fiscal Year</i>	<i>Cost of Service Rate</i>	<i>Full Cost Rate 202(3)</i>	<i>Full Cost Rate 205(a)(3)</i>	<i>Restoration Fund Charge⁽¹⁾</i>	<i>Trinity Public Utility District Assessment Charge</i>
2020-21	\$50.20	\$ 113.58	\$ 141.60	\$10.91	\$0.12
2019-20	70.11	130.08	162.53	10.63	0.30
2018-19	69.12	110.20	138.30	10.47	0.30
2017-18	114.31	161.63	203.74	10.23	0.30
2016-17	90.38	137.84	175.09	10.21	0.30

⁽¹⁾ Restoration Fund charges are made on a federal fiscal year basis.
Source: District.

The Cost of Service Rate and the Full Cost Rates can vary significantly from year to year as a result of changes in Reclamation costs, reductions in total CVP deliveries, reservoir storage levels, and other factors. In addition, the United States Congress has increased Reclamation CVP water rates by legislation in the past and may do so again in the future. For this reason it is difficult for the District to forecast Reclamation rates from year to year.

In addition to the rates set forth above, an amount (the “Potential Deficit”) equal to the difference between the actual cost of operations and maintenance as computed in accordance with Reclamation Law (“Actual O&M”) is accrued by Reclamation. The District has the option to voluntarily pay all or a portion of the Potential Deficit. The amount of Potential Deficit not paid by the District voluntarily (the “Actual Deficit”) is required under current Reclamation Law to be repaid within thirty days after notice by Reclamation and accrues interest thereafter. The District’s practice is to pay the Actual Deficit when recognized.

As of March 1, 1998, responsibility for operation and maintenance (“O&M”) of CVP conveyance systems was transferred to joint powers agencies representing most of the water contractors served by such facilities. At the same time, funding responsibilities were transferred, so that water contractors such as the District directly pay the costs of conveyance O&M. Federal appropriations no longer fund the routine O&M activity, except where the federal government is the water contractor. Pursuant to these agreements, the Water Authority now sets and collects O&M rates for CVP conveyance facilities utilized to deliver water to the District. Overall, the transfer of responsibilities provides greater local control over cost and increases facilities reliability. The conveyance O&M costs must be fully funded on an annual basis, which may cause some year-to-year increases. However, such costs will also be fully accounted for, with overpayments available for credit or refunding to the District.

The Western Area Power Administration (“WAPA”) and Reclamation are proposing to construct a new 230-kilovolt 600 MW bi-directional transmission project about 85 miles in length between WAPA’s Tracy Substation and San Luis, O’Neill and Dos Amigos substations. The goal of the San Luis Transmission Project (“SLTP”) is to provide the electricity to economically and reliably deliver federal water supplies to water customers in the Central Valley and Bay Area while benefiting reliable grid operations in the region. As part of SLTP, WAPA is also considering constructing, operating and maintaining about seven miles of 70-kV transmission line between San Luis and O’Neill substations. When completed, the District expects that WAPA will own, operate and maintain the SLTP with 400 megawatts of capacity between Tracy and San Luis substations reserved to serve Reclamation and the Water Authority’s member agencies, fulfilling the transmission service request submitted by Reclamation. An additional 200 megawatts of north to south and 600 MW of south to north capacity could remain for use by other parties.

WAPA is statutorily obligated to provide power to the San Luis pumping units that serve the Water Authority's member agencies. This project ensures that obligation is met at stable and affordable rates. The Water Authority and WAPA completed the environmental review process for the SLTP under the National Environmental Policy Act ("NEPA") and CEQA and identified the preferred route and configuration for the transmission line. In April 2016, WAPA issued its record of decision for the SLTP project, which concluded the environmental review process.

Reclamation is considering options for financing the SLTP, which include financing through the Water Authority and/or private investors. The District does not know if or when the SLTP will be constructed, how Reclamation will finance its share of the SLTP, including whether the Water Authority will participate in such financing, or what share of costs of the SLTP, including finance costs, will be assigned to the District for repayment. In the event that the construction of the SLTP is delayed or does not occur, WAPA will remain statutorily obligated to provide power.

The District makes deliveries to its water users through five diversion points on the San Luis Canal, two diversion points on the Delta-Mendota Canal, and two direct connections with the Central California Irrigation District (the "CCID") and the Firebaugh Canal Water District (the "FCWD"). The San Luis Canal, Delta-Mendota Canal, CCID, and FCWD currently supply approximately 58%, 28%, 8%, and 6% of the District's CVP and supplemental sources of water, respectively. Water is provided to the District water users primarily through a series of pump stations and gravity canal systems located within the District boundaries or, in some cases, directly to landowners from the San Luis Canal and the Delta-Mendota Canal.

In 2009, the Department of the Interior announced it was investing \$1 billion under the American Recovery and Reinvestment Act ("ARRA") in America's water infrastructure. Reclamation identified certain CVP projects that met the criteria for ARRA funding. Reclamation is recovering the cost of such projects as reimbursable O&M costs over a 10 year period. The District cannot currently project the District's portion of such reimbursable O&M expenditures, if any.

The United States owns the C.W. "Bill" Jones Pumping Plant (the "JPP"), which has a total of six units. Through its contract with Reclamation, the Water Authority operates and maintains the JPP, including the performance of capital improvement and extraordinary maintenance projects. In December 2015, the JPP Condition Assessment Report stated that the JPP unit motors are nearing the end of their service life and need refurbishment (commonly referred to as "rewind"). In February 2019, the Water Authority completed the JPP Unit No. 6 Motor Rewind Project, using \$5,000,000 in funds provided pursuant to a repayment contract between the United States and the Water Authority, and approximately \$400,000 in revenue collected through the Water Authority's Extraordinary O&M rate. In September 2019, the Water Authority initiated the JPP Unit No. 2 Motor Rewind Project, using approximately \$6,095,532 in funds collected through the Water Authority's Extraordinary O&M rate, and this rewind was completed in June 2020. The rehabilitation work on JPP Unit No. 5, which began in late June 2020, and was completed in mid-March 2021 and the rehabilitation work on JPP Unit No. 3, which has not yet begun, are expected to be paid for using the proceeds of a loan pursuant to a second repayment contract with Reclamation, dated June 29, 2020. The Water Authority is expected to fund the rewind of Unit 1 and Unit 4 through payments received from the Friant Water Authority pursuant to a funding agreement and the proceeds of bonds issued by the Water Authority on February 4, 2021 in the aggregate principal amount of approximately \$8,020,000. The rehabilitation work on Unit 1 began in March 2021 and is planned to be completed in November 2021 and the rewind of unit 4 will begin in November 2021 and is expected to be completed in August 2022. All District costs related to repayment of repayment contracts with Reclamation and the bonds will be included in the Water Authority's annual O&M rate, which varies depending on water allocation and expenses.

The 116.5-mile long Delta-Mendota Canal has several locations along its course where subsidence has reduced the Delta-Mendota Canal's ability to convey water, below the design capacity through that section. The areas where the subsidence has resulted in a loss of conveyance capacity occurred where the subsurface geology compacts when there is excessive groundwater pumping and dewatering of certain types of soil. This

excessive groundwater pumping typically occurs during extended drought periods, when surface water is not available and the landowners pump groundwater to irrigate their crops.

The broad scope of work for the Delta-Mendota Canal Subsidence Correction Project is to perform modifications necessary on the Delta-Mendota Canal conveyance system to enable the Jones Pumping Plant to pump at permitted rates. The Water Authority and Reclamation are developing planning level cost estimates for the various modifications to the Delta-Mendota Canal that are necessary to restore the Delta-Mendota Canal to its original design conveyance capacity. The first phase of this multi-phased project has received approximately \$5 million in federal funding and is in progress. This phase consists of manufacturing and installing two additional pumping units and appurtenances into the two available pump bays of the Delta-Mendota Canal/California Aqueduct Intertie Pumping Plant. The installation of these pumping units is planned to be performed in late-2021.

The additional phases of the Delta-Mendota Canal project will be determined and developed during the design phase of the project. During this design phase, the Water Authority and Reclamation will determine the total number of structures that will need to be modified during each phase and the order of the phases to best match the future funding for the project. The phases include raising the height of the existing concrete lining, repairing the concrete lining that has been damaged by the subsidence, repairing and further protecting the clay lined embankment where the subsidence has caused significant embankment erosion, raising or replacing irrigation pipeline crossings and storm drain over chutes that have become (or are partially) submerged from the subsidence and raise or replace county road bridges where the bridge structure is impeding the Delta-Mendota Canal flows. Whether these additional phases will be undertaken by Reclamation or others, what the ultimate cost of such potential work might be, how such potential work will be financed, and what share of such costs, including financing costs, may be the responsibility of the District as a member of the Water Authority cannot be predicted.

In addition to the potential projects discussed above, Reclamation or others are evaluating other projects to repair, replace, or improve CVP facilities. These potential projects include repair of the San Luis Canal to restore conveyance capacity lost due to subsidence, the enlargement of Shasta Dam to increase the storage capacity in the Shasta Reservoir, and improvements to and/or enlargement of the B. F. Sisk Dam to address seismic issues and/or increase the capacity of the San Luis Reservoir. A Notice of Availability for the B.F. Sisk Dam Raise and Reservoir Expansion Project Final Environmental Impact Report/Supplemental Environmental Impact Statement was published in the Federal Register in December 2020. Whether these potential projects will be undertaken by Reclamation or others, what the ultimate cost of such potential projects might be, how such potential projects will be financed and what share of such costs, including financing costs, may be the responsibility of the District cannot be predicted.

In addition to the foregoing projects to be undertaken for the benefit of CVP facilities, the District is evaluating participation in the Los Vaqueros Reservoir expansion project, which would expand reservoir capacity to 275,000 acre-feet. The Los Vaqueros Reservoir expansion project is in the early phases of design and development. The District cannot currently predict the ultimate costs of such project or, if the District determines to participate in such project, the District's share of the related costs.

District Water and Acreage Charges

Rate Setting Procedure. The District annually adopts water rates for agricultural water service in the District by Board action after recommendation of the District's staff. Annually, during the budgeting process the District considers the likely CVP water allocation and likely available pools and costs of supplemental supplies, and fixes an anticipated quantity of water to acquire. The District then considers anticipated rates for water service established by Reclamation and the Water Authority, as well as the anticipated cost of target pools of supplemental supply, and uses that information to establish blended irrigation water rates for the District. Supplemental water pools made available only by grower subscription are not included in the blended rate but are billed at a rate necessary to cover the cost to acquire and deliver such supplemental supplies to the

District. If at the end of a water year the blended water rate is insufficient to cover such charges, a supplemental invoice may be issued to water users from time to time. In some cases, the District has used District reserves to offset rates during dry hydrologic year types and to fund charges of Reclamation and the Water Authority.

In addition, annually, during the budget process, the District evaluates projected operations and maintenance costs spread over the District’s estimated irrigation water deliveries. Generally, the O&M rate per acre-foot of irrigation water is the quotient of the estimated operations and maintenance cost divided by the anticipated deliveries. The O&M rate is a second component of water rates imposed by the District to cover the water expense.

Water Rates. The following schedule details the range of water rates payable by agricultural water users in the District for the current and last four Fiscal Years.

**PANOCHE WATER DISTRICT
Summary of Water Rates**

<i>Fiscal Year</i>	<i>Cost (\$/acre foot)</i>	
	<i>CVP Water</i>	<i>Supplemental Water</i>
2021-22	\$198.02	\$407.55
2020-21 ⁽¹⁾	152.00	551.00
2019-20 ⁽²⁾	129.00	276.00
2018-19 ⁽³⁾	145.00	373.00
2017-18	113.00	483.00
2016-17	0.00	400.00

⁽¹⁾ In Fiscal Year 2020-21 supplemental water ranged from \$383 per acre-foot to \$720 per acre-foot. Amount reflects average cost.

⁽²⁾ In Fiscal Year 2019-20 supplemental water ranged from \$235 per acre-foot to \$318 per-acre foot. Amount reflects average cost.

⁽³⁾ In Fiscal Year 2018-19 supplemental water ranged from \$201 per acre-foot to \$545 per acre-foot. Amount reflects average cost.

Source: District.

Acreage Charges. On June 2, 2021, following a notice, hearing and majority affirmative vote of owners of land representing approximately 87% of the assessment, the Board authorized a benefit assessment up to \$60.00 per beneficial acre. Up to \$38.09 of such benefit assessment, the Contractual Obligation Assessment, will be assessed by the District on approximately 38,207 acres to pay the Series 2021 Installment Payments. The remaining \$21.91 of the authorized assessment may be assessed by the District for the purpose of financing capital improvement modernization projects for the benefit of the District (the “Future Modernization Projects Assessment”).

The Future Modernization Projects Assessment is not pledged to, nor will it be available for the payment of, the Series 2021 Installment Payments. See the caption “CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES—Proposition 218” in the forepart of this Official Statement. Proceeds of the Contractual Obligation Assessment will be applied by the District to the Series 2021 Installment Payments. See the caption “SECURITY FOR THE 2021 BONDS—General” in the forepart of this Official Statement.

Under the 2021 Installment Purchase Agreement, if the Series 2021 Installment Payment coming due on the last day of February has been paid and the amounts on deposit in the Contractual Obligation Assessment Fund are sufficient to make the Series 2021 Installment Payments coming due on the last day of August and to

pay debt service on any obligations issued or incurred to prepay the Series 2021 Installment Payments, then on or after the last day of the Fiscal Year, any amounts in excess of the amount needed to make the foregoing payments is permitted to be applied by the District for any lawful purpose. The District currently intends to use any excess amounts to provide refunds to District landowners who paid the Contractual Obligation Assessment in such Fiscal Year. Pursuant to the terms of the Series 2021 Installment Purchase Agreement, the District is not permitted to apply any surplus Contractual Obligation Assessments as a credit to the succeeding Fiscal Year's Contractual Obligation Assessment, but can apply such surplus Contractual Obligation Assessments as a credit to other assessments or charges owed by the landowner. See Appendix C—“SUMMARY OF PRINCIPAL LEGAL DOCUMENTS” under the caption “DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE 2021 INSTALLMENT PURCHASE AGREEMENT—SECURITY.”

The Contractual Obligation Assessment will be collected on a per-acre basis from landowners. The Contractual Obligation Assessment will be established annually during the budget process prior to the beginning of the Fiscal Year. The Contractual Obligation Assessment will be included in the annual property tax bill and will be collected by Merced and Fresno Counties. The Contractual Obligation Assessment is due in two installments, on November 1 and February 1 of each Fiscal Year. If unpaid, the Contractual Obligation Assessment becomes delinquent on December 10 and April 10, respectively. The installments of the Contractual Obligation Assessment are expected to be received by the District from Merced and Fresno Counties in mid-January and mid-May.

The Boards of Supervisors of Fresno and Merced Counties have each adopted the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the “Teeter Plan”) as provided for in Section 4701 et seq. of the California Revenue and Taxation Code. The District is taking the necessary actions to have the Contractual Obligation Assessment enrolled in each county's Teeter Plan per each county's rules and procedures, which includes having the Contractual Obligation Assessment on the property tax roll for at least three years and having a delinquency rate of less than 10% in each of such years. The District expects to be able to participate in the Teeter Plans of the respective counties starting in Fiscal Year 2025; however, no assurance can be provided that the either or both of the Fresno and Merced Counties will permit the Contractual Obligation Assessment participate in the respective Teeter Plans. Under the Teeter Plan, each participating local agency receives annually 100% of the secured property tax levies to which it is otherwise entitled, regardless of whether a county has actually collected the levies. In turn, such county retains all penalties and interest associated with delinquent taxes when they are paid.

The District has adopted a policy with respect to the collection of delinquent property related fees and charges (the “Property Related Fees and Charges Delinquency Policy”). Under the Property Related Fees and Charges Delinquency Policy, any person in the District who is subject to fees or charges levied upon real property or upon a person as an incident of real property ownership (“Property Related Fees and Charges”), including the Contractual Obligation Assessment, that fails to pay such Property Related Fees and Charges before it becomes delinquent, in addition to any other penalty provided by law, may, at the discretion of the General Manager, have water service discontinued to the parcel upon which any Property Related Fees and Charges were levied. Water service will not be resumed on a respective parcel until all delinquent Property Related Fees and Charges have been paid.

At any point when the Contractual Obligation Assessment is not enrolled in the Teeter Plan of Merced County or Fresno County, with respect to the Contractual Obligation Assessment levied in the county where the Contractual Obligation is not enrolled in the Teeter Plan, any delinquency in the payment of the Contractual Obligation Assessment may constitute a debt owed by the landowner to the District and may be secured by a lien against the parcel upon which the Contractual Obligation Assessment was levied. If the ninety (90) days pass before payment is received by the District, the landowners will be in default. In the case of default, all payments for the Contractual Obligation Assessment that are delinquent, as well as any Contractual Obligation Assessments coming due in the following year, must be received by the District before the District will remove any lien placed on the parcel.

If the Contractual Obligation Assessment is enrolled in the Teeter Plans of Merced and Fresno Counties, such counties would be allowed to use the respective rights and remedies permitted under law to enforce the payment of any delinquent Contractual Obligation Assessments and any related penalties or charges.

During the COVID-19 pandemic, the treasurer-tax collectors of Merced and Fresno Counties each adopted policies pursuant to which the treasurer-tax collector of such county was permitted to consider waiving fees and penalties levied on a taxpayer who failed to make the property tax installment due on April 10, 2020 by such date due to reasons related to the COVID-19 pandemic. There can be no assurance that such treasurer-tax collectors will not implement similar policies in the future and that such policies will not have a material adverse effect on the collection of the Contractual Obligation Assessment. See the captions “INVESTMENT CONSIDERATIONS—Collection of Contractual Obligation Assessment” and “INVESTMENT CONSIDERATIONS—COVID-19” in the forepart of this Official Statement.

In certain fiscal years, the District has credited excess Revenues remaining after the payment of all other District obligations to landowners, lessees and water users. The landowners, lessees and water users have the option to receive a refund of such credit or to apply such credit to the following fiscal year’s rates and charges. To the extent that a landowner, lessee or water user elects to have the credit applied to the following fiscal year’s rates and charges, such credit is treated as a Revenue in such following fiscal year, for purposes of compliance with the rate covenant described under the caption “SECURITY FOR THE 2021 BONDS—Rate Covenant” and the additional debt test described under the caption “SECURITY FOR THE 2021 BONDS—Additional Indebtedness.”

Supplemental Water Charges. The cost of supplemental surface water acquired, either directly by water users or by the District on behalf of its water users or a group of water users, is borne by the individual or the group, respectively. For unsubscribed supplemental water acquired by the District, all water transaction costs are pooled together and a single, blended rate per acre foot of water is then charged to the individuals comprising the group, based upon their individual allocations of such supplemental surface water. See the caption “—District Water Supply—Supplemental Water.”

Water Rate Collection Procedures. The District is on a monthly billing cycle for water rates. All water delivered in the District is metered, with meters read periodically throughout the month and then at the end of the month for the purpose of developing an invoice for each water user. Water usage for the prior month is summarized and invoiced to each water user by the fifteenth day of each month. Invoices are due on or prior to the 15th of the following month, and are considered delinquent if not paid in full by such date, incurring interest at the rate of 18% per annum.

The District’s water accounts are monitored by the District Watermaster, while District customer accounts are monitored by the Water Accounting Specialist. Water service will be suspended and locked out if necessary, by the District’s Canal Operators, under the direction of the Water Resources Manager, until such delinquency is resolved. The District’s computerized water ordering system, prevents any new water order from being placed by the delinquent accountholder or accepted by the District. If an account becomes delinquent, notice of delinquency is provided to the water user, and landowner if the water user is a lessee, and a lock-out notice is issued to the Canal Operators, who secure a delinquent accountholder’s turnout(s) to block further water deliveries. Water service is terminated until payment of the delinquent amount and associated interest and/or penalties are made in full. When payment is received, the District removes the hold on the subject account and authorizes recommencement of water service through the District’s computerized water ordering system. The District may require prepayment for water and delivery service and/or place a lien on the properties of accountholders whose accounts remain delinquent for more than 60 days.

As of February 29, 2020, approximately seven water accounts, totaling \$584,792 were 90 days delinquent. In comparison, as of February 28, 2021, approximately seven water accounts, totaling \$627,579 were 90 days delinquent.

See the caption “—Acreage Charges” for a discussion of collection procedures applicable to District assessments.

Water Quality Regulation

Irrigated Lands Regulatory Program. On January 9, 2014, the Regional Water Quality Control Board (the “RWQCB”) adopted new regulatory requirements (the “General Order”) addressing discharges from irrigation to protect groundwater quality underneath lands within the District. The General Order outlines very specific instructions for all landowners whose lands are being used for irrigated agricultural purposes and requires either participation through enrollment in a third party group or by obtaining an individual permit. The third party group available to District landowners is the Grassland Drainage Area Coalition, formed under the Water Authority. The Grassland Drainage Area Coalition assists District landowners in complying with and fulfilling their obligations under the General Order so long as landowners remain in good standing with the Grassland Drainage Area Coalition.

Central Valley Salinity Alternatives for Long-Term Sustainability. The Central Valley Salinity Alternatives for Long-Term Sustainability (“CV-SALTS”) basin plan amendments were adopted on October 16, 2019. The program aims to achieve long-term sustainability by applying proper antidegradation practices for the discharge of salt, providing solutions for safe drinking water supply, and implementing aquifer restoration. As part of the permit requirements, the Grassland Drainage Area Coalition participates in the Prioritization and Optimization Study to develop a long-term approach to salt management in the Central Valley.

Drainage

In 1960, when the San Luis Unit of the CVP was authorized, it was understood that the delivery of irrigation water to areas within the San Luis Unit, including the District, would also require drainage. Studies of the proposed San Luis Unit confirmed the need for subsurface drainage to protect crop root zones from salts in the water table, which builds up through irrigation. Lands in areas adjacent to the proposed San Luis Unit were experiencing drainage problems, and landowners in those adjacent areas expressed concerns that providing irrigation water to the San Luis Unit lands without drainage could exacerbate their drainage problem. Indeed, California’s earliest water plans recognized that if water were exported from the Sacramento – San Joaquin Rivers Delta and used in the San Joaquin Valley, a master drain would be needed. Accordingly, section 1(a) on the San Luis Act, required the Secretary to provide for a drain to the Delta in the event that the State of California did not provide a drainage system. (Act of June 3, 1960, Public Law 86-488, 74 Stat. 156.) In 1961, the State of California informed the Secretary that it would not provide a master drain, and on January 9, 1962, the Secretary advised the Congress that he would make provision for the drain called for by the San Luis Act (the “Drain”). The District’s 1974 Contract specified that the United States would provide drainage service to the District and imposed a fee, which remains a component of the District’s CVP rates. A lack of appropriations and environmental considerations prevented completion of the Drain, of which some 82 miles had been constructed between 1968 and 1975. The Drain was terminated at the Kesterson Wildlife Refuge, which is about 20 miles north of the District. As of the date of this Official Statement, the United States has not authorized the District’s use of the Drain as contemplated under the San Luis Act.

In 1994, the United States District Court for the Eastern District of California (the “District Court”) ordered Reclamation to make application to the SWRCB for the water quality permits necessary to complete the Drain. The SWRCB then concluded that a comprehensive environmental review regarding drainage alternatives was necessary and initiated a negotiation process with the District and Reclamation for payment of environmental service costs. In February 2000, the United States Court of Appeals for the Ninth Circuit affirmed the District Court’s decision that the Secretary of the Interior has a statutory duty to provide drainage service to the San Luis Unit of the CVP. It reversed, however, the District Court’s injunction ordering Reclamation to make the application necessary to complete the Drain. The Ninth Circuit held that the Secretary has discretion to provide drainage service through means other than the Drain, and the form of the

injunction impermissibly constrained the exercise of that discretion. On April 18, 2001, Reclamation submitted a plan describing additional studies that it would conduct to assess all viable drainage service alternatives to determine their economic feasibility, environmental impacts and benefits. A final plan and supporting Environmental Impact Statement (“EIS”) were completed and released in March 2007. For the area within the District, the plan called for in-valley drainage management, including treatment and disposal of salts without discharge to the Delta.

There are approximately 22,000 acres of drainage impacted lands within the District. Drainage services are provided to these lands by the Panoche Drainage District, which provides collection and conveyance of subsurface agricultural drainage and stormwater. Surface return flows must be managed on farm property and are not accepted into the Panoche Drainage District system. The District and the Panoche Drainage Districts have worked with neighboring public agencies both within and adjacent to the San Luis Unit (the “Grassland Drainage Area”) to develop and implement the Westside Regional Drainage Plan (the “WRDP”) and one of its tools, the Grassland Bypass Project. The WRDP is a combination of drainage reduction measures applied on a regional basis, both on farm and in-District, that includes landowner installation of high-efficiency irrigation systems, recirculation and blending of drainage water into the irrigation system, both on-farm and in-district; facilities improvements, groundwater management through pumping of shallow wells, regional collection of agricultural subsurface drainage and its use for irrigation of salt tolerant crops on 6,000 acres known as the “San Joaquin River Water Quality Improvement Project or “SJRIP,” and treatment. The Grassland Bypass Project allowed regulated discharge of subsurface agricultural drainage water through the end of 2019. Given the success of the WRDP and use of the SJRIP, no subsurface agricultural drainage water has been discharged outside the Grassland Drainage Area since 2014, and subsurface drainage water from irrigation is expected to continue to be managed within the Grassland Drainage Area without discharge. A subsequent phase of the Grassland Bypass Project, known as the Long-Term Storm Water Management Plan, began on January 1, 2020. That phase also is implemented by Grassland Drainage Area participants through the Water Authority and permits discharge of flows related to storm events through the Drain when necessary to avoid flooding and reduce the likelihood of discharges into adjoining wetland channels. While some lands in the region have been taken out of production, the drainage services provided by the Panoche Drainage District have prevented the need to eliminate irrigation on acres within the District. No economically viable treatment process for subsurface agricultural drainage water has yet been identified. The District expects that the current suite of management tools will continue to be effective. Further, the District is participating in valley-wide salt management planning effort by participating in the CV-SALTS Salt Control Plan through the Phase 1 Prioritization and Optimization Study. The District anticipates participating in subsequent phases of the CV-SALTS program. See the caption “—Water Quality Regulation— *Central Valley Salinity Alternatives for Long-Term Sustainability*”.

The District has met with the United States periodically in the past to discuss potential San Luis Act drainage service resolution and understands that the United States has entered into drainage agreements with other public agencies in the region. While the District anticipates engaging with the United States in future discussions regarding a potential San Luis Act drainage service resolution, including a drainage agreement, the District is aware that such agreements require legislation for their implementation, and if such legislation is not passed by Congress, the District expects that Reclamation will construct infrastructure to provide drainage services. The costs to construct and operate the drainage services would be reimbursable to Reclamation from the water users, and such costs would be added to the rates for CVP water, which would increase the cost for water to the District’s landowners. The District, together with Panoche Drainage District, is in the process of implementing an expansion of SJRIP and improvements to SRJIP facilities utilizing State grant funding to further assure the ability to successfully manage District drainage through the measures outlined in the WRDP without discharge out of the Grassland Drainage Area, while continuing to preserve its agricultural lands.

On June 25, 2019, the District became a forming member, together with the Panoche Drainage District, of the joint powers authority Grassland Basin Authority (“GBA”). The primary function of the GBA is to provide each member clear, definitive voting power, financial responsibility, and input regarding the

operation and maintenance of the SJRIP. The District anticipates that it will continue to participate in the GBA as part of the effective in-valley management of subsurface drainage from irrigation.

The District expects that certain costs of such drainage management described above may be financed from the proceeds of obligations issued by the Panoche Drainage District, the Authority or GBA. In the event that the obligations are issued by the Authority or GBA, the obligation to pay the District's share of debt service with respect to such obligations would be payable from Net Revenues on a parity with the Series 2021 Installment Payments. The District does not anticipate that the Authority or GBA will issue obligations within the next five years nor, in the event that the Authority or GBA does, that such obligations would result in a lien on District revenues.

Capital Improvement Program

The District is currently in the process of developing a capital improvement program that would modernize the District's current infrastructure to better serve the modern irrigation systems used by many of the District's growers. The District intends to undertake a system evaluation to assess where greater efficiency can be realized through improved pumping, conveyance, and automation to reduce the cost to operate and maintain the system. The District anticipates the development of the modernization capital improvement program to take approximately two to three years. If the District determines to implement the modernization capital improvement program, the District expects to enter into an installment purchase agreement and the Authority is expected to issue bonds to finance the construction of the capital improvements. The District expects such bonds to be payable from the Future Modernization Projects Assessment, and to the extent that the Future Modernization Projects Assessment is insufficient, from Net Revenues (but not the Contractual Obligation Assessment) on a parity with the Series 2021 Installment Payments, and the maximum principal amount of such bonds is expected by the District to be approximately \$15 million.

Membership in Joint Powers Authorities

San Luis & Delta-Mendota Water Authority. The District is a member of the Water Authority. One of the primary purposes of the Water Authority is to operate and maintain certain CVP water conveyance facilities and administer the region's Long-Term Stormwater Management Plan through the Grassland Bypass Project. The Water Authority also serves the information and representation needs of the members by developing, providing and disseminating information to legislative, administrative and judicial bodies concerning a variety of issues. The Water Authority has served as the umbrella agency for participation of entities in the Grassland Drainage Area in the drainage management activities described above pursuant to the Grassland Drainage Management Activity Agreement. That sub-group also serves to manage the RWQCB's Irrigated Lands Regulatory Program for individual farmers within the Grassland Drainage Area Coalition. For a description of certain capital improvement projects relating to the CVP that have been, or may be, facilitated by the Water Authority, see "—Cost of CVP Contract Water" in this Appendix A.

Central Delta-Mendota Groundwater Sustainability Joint Powers Authority. The State of California passed the SGMA requiring groundwater basins to become sustainable. This required the development of a Groundwater Sustainability Plan and implementation measures. The District along with 9 other agencies formed a joint powers authority to comply with the SGMA. See the caption "—Sustainable Groundwater Management Act."

Grassland Basin Authority. The District along with 6 other agencies formed a joint powers authority to provide for the operation and maintenance of the SJRIP. The District determined that a joint effort was a more effective and efficient means to provide the common drainage services. See the caption "—Drainage."

San Joaquin Valley Drainage Authority. The District, along with 9 other agencies, formed the San Joaquin Valley Drainage Authority (the "SJVDA"), initially in anticipation of the expected issuance of a drainage permit for the Drain by RWQCB. See the caption "—Drainage". The SJVDA now manages

monitoring, reporting and compliance with groundwater protection, waste discharge permitting, irrigated lands program and other requirements of the RWQCB for many of its members. Panoche Drainage District participates as a coordinating member, but its compliance with surface water quality monitoring, reporting, and discharge permits and its landowners' participation in the Irrigated Lands Regulatory Program is organized and permitted under the Grassland Basin Drainage Management Activity of the Water Authority.

Panoche Financing Authority. The District along with the Panoche Drainage District formed the Authority to secure and manage debt financing for the districts. See the caption "THE AUTHORITY" in the forepart of the Official Statement.

Assessments

The District will first levy the Contractual Obligation Assessment through the annual property tax bill for Merced and Fresno Counties for Fiscal Year 2021-22. Payment of the initial Contractual Obligation Assessment installment is due on November 1, 2021 and will become delinquent after December 10, 2021. The second installment of the Contractual Obligation Assessment will be due on February 1, 2022 and will become delinquent after April 10, 2022.

The following table sets forth the ten landowners paying the largest amounts of Contractual Obligation Assessments levied in Fiscal Year 2021-22.

**PANOCHÉ WATER DISTRICT
CONTRACTUAL OBLIGATION ASSESSMENTS
FISCAL YEAR ENDED FEBRUARY 28, 2022**

<i>Assessment Payer (by account)</i>	<i>% of Total District Assessments</i>
Agricultural Account*	6.00%
Agricultural Account*	4.00
Agricultural Account*	3.00
Agricultural Account*	3.00
Agricultural Account*	3.00
Agricultural Account*	3.00
Agricultural Account*	3.00
Agricultural Account*	3.00
Agricultural Account*	3.00
Agricultural Account*	3.00
	<u>3.00</u>
Total	34.00%

* The District does not provide the names of landowners who are private individuals.
Source: District.

Financial Statements

A copy of the most recent audited financial statements of the District for the Fiscal Year ending February 29, 2020 prepared by Price, Paige and Company, Clovis, California (the "Auditor") are set forth in Appendix B—"PANOCHÉ WATER DISTRICT FINANCIAL STATEMENTS FOR THE YEAR ENDED FEBRUARY 29, 2020, INCLUDING THE INDEPENDENT AUDITOR'S 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". The Auditor's letter concludes that the financial statements referred to above present fairly, in all material respects, the respective financial position of the District as of February 29, 2020, and the respective changes in financial position and cash flows for the year then ended in

accordance with accounting principles generally accepted in the United States of America. The Auditor has not reviewed the information contained in this Official Statement.

The District accounts for moneys received and expenses paid in accordance with generally accepted accounting principles applicable to governmental agencies such as the District (“GAAP”) and applies all relevant Governmental Accounting Standard Board pronouncements.

The financial statements of the District are presented using the full accrual method of accounting and conform to accounting principles generally accepted in the United States of America and with the policies and procedures of the office of the State Controller, State of California.

The accounts of the District are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a set of accounts that comprise the District's assets, liabilities, net position, revenues and expenses. Enterprise funds account for activities (i) that are financed with debt that is secured solely by a pledge of the net revenue from fees and charges of the activity; or (ii) that are required by law or regulation that the activity's costs of providing services, including capital costs (such as depreciation or debt service) be recovered with fees and charges, rather than with taxes or similar revenue; or (iii) that the pricing policies of the activity establishes fees and charges designated to recover its costs, including capital costs (such as depreciation or debt service).

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus all assets and all liabilities associated with the operations are included on the statement of net position. Net position (i.e., total assets less total liabilities) are segregated into net investment in capital assets, restricted and unrestricted components.

In certain cases GAAP requires or permits moneys collected in one Fiscal Year to be recognized as revenue in a subsequent Fiscal Year and requires or permits expenses paid or incurred in one Fiscal Year to be recognized in a subsequent Fiscal Year. See the Appendix B—“PANOCHE WATER DISTRICT FINANCIAL STATEMENTS FOR THE YEAR ENDED FEBRUARY 29, 2020, INCLUDING THE INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING” attached hereto for a discussion of accounting practices of the District. Except as otherwise expressly noted herein, all financial information derived from the District’s audited financial statement reflect the application of GAAP.

The summary operating results contained under the caption “—Historic Operating Results and Debt Service Coverage” are derived from these financial statements (excluding certain non-cash items and after certain other adjustments) and are based on the financial covenants included in the 2021 Installment Purchase Agreement. See the definition of Revenues and Operating and Maintenance Costs set forth in Appendix C attached hereto for additional information with respect to such exclusions and adjustments. The summary operating results are qualified in their entirety by reference to such financial statements, including the notes thereto, and the provisions of the 2021 Installment Purchase Agreement summarized in Appendix C hereto.

In providing a rating on the 2021 Bonds, certain rating agencies may have performed independent calculations of coverage ratios using their own internal formulas and methodology which may not reflect the provisions of the 2021 Installment Purchase Agreement. See the caption “RATINGS” in the forepart of this Official Statement. The District makes no representations as to any such calculations, and such calculations should not be construed as a representation by the District as to past or future compliance with any financial covenants, the availability of particular revenues for the payment of Debt Service or for any other purpose.

Historic Operating Results and Debt Service Coverage

The following tables set forth a summary of water system operating results and debt service coverage with respect thereto for the last five Fiscal Years. See Appendix B—“PANOCHE WATER DISTRICT FINANCIAL STATEMENTS FOR THE YEAR ENDED FEBRUARY 29, 2020, INCLUDING THE INDEPENDENT AUDITOR'S 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” attached hereto. The following summary for the Fiscal Year ended the last day of February for the years indicated and is qualified in its entirety by reference to such statements for such years, including the notes thereto. The Auditor has not reviewed the information set forth in the following table.

Panoche Water District Historic Operating Results and Debt Service Coverage (Fiscal Years) Fiscal Year (March 1 through last day of February)

	2020	2019	2018	2017	2016
REVENUES					
Irrigation water sales	\$ 10,522,623	\$ 14,772,572	\$ 11,101,468	\$ 17,548,670	\$ 24,862,719
District operations and maintenance	7,642,685	6,856,774	6,080,556	5,451,290	5,010,437
Expense reimbursements from other governments ⁽¹⁾	3,799,018	2,400,440	2,691,586	3,080,811	2,795,451
Interest revenues ⁽²⁾	198,744	161,064	92,578	64,781	43,300
Other revenues ⁽³⁾	<u>577,749</u>	<u>131,748</u>	<u>569,311</u>	<u>538,698</u>	<u>393,411</u>
Total Revenues	\$ 22,740,819	\$ 24,322,598	\$ 20,535,500	\$ 26,648,250	\$ 33,105,318
OPERATION AND MAINTENANCE COSTS⁽⁴⁾					
Water Cost ⁽⁵⁾	\$ 11,282,662	\$ 14,000,350	\$ 10,452,748	\$ 14,404,250	\$ 16,884,261
Transmission and distribution	3,342,013	4,030,941	5,067,241	5,279,305	5,344,073
Administrative and general	5,674,380	4,910,074	4,243,844	4,375,677	2,918,475
General plant	<u>1,484,989</u>	<u>1,047,442</u>	<u>800,566</u>	<u>1,043,360</u>	<u>1,284,300</u>
Total Operation and Maintenance Costs	\$ 21,784,045	\$ 23,988,807	\$ 20,564,398	\$ 25,102,592	\$ 26,431,109
NET REVENUES	\$ 956,774	\$ 333,791	\$ (28,898)	\$ 1,581,658	\$ 6,674,209
DEBT SERVICE⁽⁶⁾	-	272,119	272,356	272,355	1,277,353
DEBT SERVICE COVERAGE	-	1.23	(0.11) ⁽⁷⁾	5.81	5.23
NET REVENUES AVAILABLE FOR OTHER PURPOSES	\$ 956,774	\$ 61,672	\$ (301,254)	\$ 1,309,303	\$ 5,396,856

(1) Primarily reimbursement from the Panoche Drainage District for staff costs and Panoche Drainage District share of repair and replacement costs and capital improvements.

(2) Excludes unrealized gains and losses on investments.

(3) Included other operating revenues, municipal and industrial water sales, capital improvement fees and sale of capital assets.

(4) Excludes noncash operating expenses such as depreciation and noncash nonoperating expenses including settlement expenses being paid from proceeds of the 2021 Bonds.

(5) Does not include inventory adjustments. Includes amounts payable to the Water Authority under the DHCCP Activity Agreement.

(6) Reflects amounts payable under a line of credit and a loan from the SWRCB. The loan with the SWRCB was paid in full in Fiscal Year 2019. The line of credit terminated on August 31, 2019.

(7) Debt service in Fiscal Year 2017-18 funded primarily from District reserves.

Source: District.

See “Management Discussion of Historic Operating Results and Debt Service Coverage” below for a discussion of certain adjustments made to the District’s audited financial statements for Fiscal Year 2016 and a discussion of certain material weaknesses identified in the Independent Auditor’s 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* prepared in connection with the 2020 audited financial statements.

Management Discussion of Historic Operating Results and Debt Service Coverage

In its Financial Statements for Fiscal Year 2015-16, the District determined that certain transactions were recorded incorrectly in prior fiscal years. The District did not recognize an allowance for doubtful accounts in prior fiscal years’ accounts that were significantly overdue through Fiscal Year 2015-16, resulting in a \$574,657 increase in the allowance for doubtful accounts for Fiscal Year 2015-16. In addition, the District incorrectly recognized \$162,132 in grant reimbursement revenue in the current year for grant expenses incurred in a prior year. The District did not reduce its deficit deposit liability for actual payments made on account, resulting in a \$1,042,451 decrease to deficit deposits liability. The District incorrectly capitalized costs related to the Delta Habitat Conservation and Conveyance Program (the “DHCCP”), resulting in a \$2,401,930 decrease to DHCCP asset. The District did not recognize a \$9,547,178 increase in water inventory. The District previously reported its Net Position as \$19,163,183 and restated its beginning Net Position as \$26,938,357 for Fiscal Year 2015-16.

In the Independent Auditor’s 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* prepared by the Auditor in connection with the District Fiscal Year 2019-20 audited financial statements, and dated March 10, 2021 (the “Report on Internal Control”), the Auditor identified a deficiency in internal control that it considered to be a material weakness. The material weakness identified was that the internal controls over the year-end financial reporting process were not properly designed and were not placed in operation. This material weakness resulted in the District incorrectly “reversing” a prior year adjusting entry in the amount of \$264,369, which the District had believed was an accrual entry but was in fact a correcting entry for revenue and accounts receivable. The Auditor recommended that the District create a year-end financial closing checklist which includes the necessary steps, in detail, that should be undertaken at year-end to ensure proper reconciliation and report all significant account balances.

The Report on Internal Control also discussed certain material weaknesses that were identified in a report delivered in connection with the District’s audited financial statements for Fiscal Year 2018-19. The first material weakness was that internal controls over the year-end financial reporting process were not properly designed and were not placed in operation. This resulted in the District not properly recording all payables, receivables, expenses and revenues during the year-end closing process. The Auditor recommended that the District create a year-end financial closing checklist which includes the necessary steps, in detail, that should be undertaken at year-end to ensure proper reconciliation and report all significant account balances. The Auditor concluded that the recommendation had been partially implemented. The second material weakness related to the District not having a properly designed or operating control system. Specifically, the report identified that the District did not have adequate written policies and procedures to address payroll/personnel transactions. The Auditor also noted that monitoring of financial transactions was weak or non-existent. This resulted in the District not obtaining proper authorization for payroll related transactions during the fiscal year. The Auditor recommended that the District create policies and procedures which include the necessary steps, in detail, that should be undertaken to ensure proper documentation, authorization and reporting of all accounting transaction. The Auditor concluded that this recommendation had been implemented.

Since 2018, District staff has reviewed and modified District audit and accounting practices to address material weaknesses previously identified in prior reports prepared by District auditors.

See Appendix B—“PANOCHE WATER DISTRICT FINANCIAL STATEMENTS FOR THE YEAR ENDED FEBRUARY 29, 2020, INCLUDING THE INDEPENDENT AUDITOR'S 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” attached hereto for the current Report on Internal Control.

Projected Operating Results and Debt Service Coverage

Estimated projected operating results on an aggregate basis for Fiscal Years 2020-21 through 2024-25 are set forth below. The projected operating results reflect a projected 0% allocation for CVP contract water entitlements for Fiscal Year 2021-22 and 40% allocation for CVP contract water entitlements for Fiscal Years 2022-23 through 2024-25. For more information, see the caption “—Projected Water Sources.” Certain assumptions have been made by the District in the development of the projections. Many of these assumptions are reflected in the footnotes accompanying 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 and such effects could be material. Therefore, the results projected below cannot be assured.

Panoche Water District
Projected Operating Results and Debt Service Coverage
Fiscal Year (March 1 through last day of February)*

	2020-21 ⁽¹⁾	2021-22 ⁽²⁾	2022-23	2023-24	2024-25
Contractual Obligation Assessments⁽³⁾	\$ --	\$ 727,652	\$ 1,455,305	\$ 1,455,305	\$ 1,455,305
Series 2021 Installment Payments	--	625,144	928,866	929,978	930,152
Portion of Series 2021 Installment Payments Not Paid from Contractual Obligation Assessments	--	--	--	--	--
Contractual Obligation Assessments Remaining after Payment of Series 2021 Installment Payments	--	102,508	526,439	525,326	525,153
Series 2021 Installment Payment Coverage from Contractual Obligation Assessments	--	1.16	1.57	1.56	1.56
REVENUES					
Irrigation water sales ⁽⁴⁾	\$ 15,234,589	\$ 18,000,000	\$ 16,407,392	\$ 16,571,466	\$ 16,737,181
Expense reimbursements from other governments ⁽⁵⁾	1,752,314	750,000	757,500	765,075	772,726
District operations and maintenance ⁽⁶⁾	5,134,747	6,400,000	6,760,000	6,827,600	6,895,876
Interest revenue ⁽⁷⁾	121,903	149,240	141,337	134,387	131,497
Other revenues ⁽⁸⁾	275,199	283,455	291,959	300,717	309,739
Less Transfer to 2021 Stabilization Fund ⁽⁹⁾	-	-	-	-	-
Plus Transfer from 2021 Stabilization Fund	<u>1,062,492⁽¹⁰⁾</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenues	\$ 23,581,245	\$ 25,582,695	\$ 24,358,188	\$ 24,599,246	\$ 24,847,018
OPERATION AND MAINTENANCE COSTS					
Water cost ⁽¹¹⁾	\$ 14,080,303	\$ 17,100,000	\$ 15,587,023	\$ 15,742,893	\$ 15,900,322
Transmission and distribution ⁽¹²⁾	3,124,622	2,398,361	2,290,312	2,359,021	2,429,792
Administrative and general ⁽¹³⁾	5,278,289	4,691,582	4,635,413	4,728,122	4,822,684
General plant ⁽¹⁴⁾	1,098,030	1,030,971	1,061,900	1,093,757	1,126,570
Other expenses ⁽¹⁵⁾	<u>--</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenses	\$ 23,581,245	\$ 25,220,914	\$ 23,574,648	\$ 23,923,793	\$ 24,279,368
NET REVENUES	\$ 0	\$ 361,781	\$ 783,540	\$ 675,453	\$ 567,651
NET REVENUES AVAILABLE FOR PAYMENT OF PARITY OBLIGATIONS	\$ 0	\$ 361,781	\$ 783,540	\$ 675,453	\$ 567,651
DEBT SERVICE WITH RESPECT TO PARITY OBLIGATIONS					
Portion of 2021 Installment Payments Not Paid from Contractual Obligation Assessments	\$ --	\$ --	\$ --	\$ --	\$ --
Total Debt Service with Respect to Parity Obligations ⁽¹⁶⁾	\$ --	\$ --	\$ --	\$ --	\$ --
DEBT SERVICE COVERAGE WITH RESPECT PARITY OBLIGATIONS	--	--	--	--	--
NET REVENUES AVAILABLE FOR OTHER DISTRICT PURPOSES	<u>\$ 0</u>	<u>\$ 361,781</u>	<u>\$ 783,540</u>	<u>\$ 675,453</u>	<u>\$ 567,651</u>

* Totals may not sum due to rounding.

(1) Reflects Fiscal Year 2020-21 actual, unaudited results.

(2) Reflects approved Fiscal Year 2022 budget except Irrigation Water Sales and Water Costs have been increased to reflect projected additional supplemental water purchases.

(3) Reflects proceeds of Contractual Obligation Assessment levied at \$38.09 per acre foot. The District expects to levy the Contractual Obligation Assessment at \$38.09 per acre foot until the Contractual Obligation Assessment is enrolled in the Teeter Plans of Merced and Fresno Counties. Following the enrollment of the Contractual Obligation Assessment in the Teeter Plans of Merced and Fresno Counties, the District expects to levy the Contractual Obligation Assessment in an amount equal to at least 110% of the amount necessary to make the Series 2021 Installment Payments. See the caption "PANOCHÉ WATER DISTRICT—District Water Charges—Acreage Charges." See the caption "PANOCHÉ WATER DISTRICT—Assessments."

(4) Fiscal Year 2022 budget amount is currently \$9,873,471, the additional amounts in excess of the budgeted amount reflect the expected sale of supplemental water, which are expected to be reflected in a subsequent amendment to the Fiscal Year 2022 Budget. Fiscal Year 2023 projects a melded water rate of \$315.53, Fiscal Year 2024 projects a melded water rate of \$318.68 and Fiscal Year 2024 projects a melded water rate of \$321.87. Water deliveries for Fiscal Years 2022 through 2025 are as projected in the table titled "Projected Average Annual Water Deliveries." See the caption "—Projected Water Deliveries."

(Footnotes continued on following page)

- (5) Decrease from Fiscal Year 2021 amount attributable to projected decrease in services provided by the District to the Drainage District due to a transfer of operation and maintenance of SJRIP to GBA and a decrease in services to the Pacheco Water District due to Pacheco Water District decision to hire a management company to provide services previously provided by the District. Projected to increase by approximately 1% per annum from Fiscal Year 2021-22 amount.
- (6) Increase in Fiscal Year 2022 attributable to the expected increase in the sale of supplemental water. Projected to increase by approximately 6% in Fiscal Year 2023 and by 1% per annum in Fiscal Year 2024 and 2025.
- (7) Increase in Fiscal Year 2022 attributable to a projected increase in interest rates to 3%. Projected to decrease by 5% in Fiscal Years 2023 and 2024 due to the amortization of notes payable by the District and GBA and to decrease by 2% in Fiscal Year 2025 due to the amortization of notes payable by the District and GBA.
- (8) Includes other operating revenues, municipal and industrial water sales, capital improvement fees and sale of capital assets. Projected to increase by approximately 3% per annum from Fiscal Year 2020-21 amount.
- (9) No amounts are projected to be transferred to or from the 2021 Stabilization Fund.
- (10) 2021 Stabilization Fund will be established on the date of issuance of the 2021 Bonds. Payments made in Fiscal Year 2021 reflect draws from District reserves. In future Fiscal Years, the District could transfer amounts from the 2021 Stabilization Fund to pay Operation and Maintenance Costs or debt service with respect to any Bonds or Contracts instead of transferring amounts from District reserves.
- (11) Fiscal Year 2022 budget amount is currently \$10,117,622, the additional amounts in excess of the budgeted amount reflect additional costs attributable to the expected sale of supplemental water, which are expected to be reflected in a subsequent amendment to the Fiscal Year 2022 Budget. Fiscal Year 2023 projects a melded water cost of \$299.75, Fiscal Year 2024 projects a melded water cost of \$302.75 and Fiscal Year 2025 projects a melded water cost of \$305.78. Water deliveries for Fiscal Years 2022 through 2025 are as projected in the table titled "Projected Average Annual Water Deliveries." See the caption "- Projected Water Deliveries."
- (12) Decrease in Fiscal Year 2022 due to reductions in District labor force and projected maintenance costs. Decrease in Fiscal Year 2023 due to projected decreases in maintenance costs. Projects increases of 3% in each of Fiscal Year 2024 and 2025.
- (13) Decrease in Fiscal Year 2022 due to a projected reduction in labor and legal costs. Decrease in Fiscal Year 2023 due to projected reduction in labor and legal costs. Projects increases of 2% in each of Fiscal Year 2024 and 2025. Includes amounts payable to the Water Authority under the DHCCP Activity Agreement.
- (14) Decrease in Fiscal Year 2022 due to the implementation of drought related cost control measures. Projects increases of 3% per annum for Fiscal Year 2023 through 2025.
- (15) No other expenses are projected.
- (16) Bonds and Contracts expected to be paid from Net Revenues on a parity with the Series 2021 Installment Payments are not projected to be issued during the projection period.

Source: District.

Management Discussion of Projected Operating Results and Debt Service Coverage

The District's Projected Operating Results for Fiscal Years 2020-21 through 2024-25 are based on the District's actual, unaudited financial results for Fiscal Year 2020-21, subject to certain adjustments and assumptions, and assume a 0% allocation of CVP Contract Water entitlements for Fiscal Year 2021-22 and a 40% allocation for CVP Contract Water entitlements thereafter. Water sales and purchased water costs are the District's primary revenue sources and expenses. The District's projections of Revenues and Operation and Maintenance Costs for Fiscal Years 2022-23 through 2024-25 use average water deliveries, and assume changes in water rates and water costs described in the footnotes to the Projected Operating Results for Fiscal Years 2020-21 through 2024-25 table. Other revenues and expenses are projected to increase as described in footnotes to the table titled "Projected Operating Results and Debt Service Coverage" above. The District projects continuing to supplement its water supply from outside sources and the costs associated with the acquisition of supplemental water supplies are captured in water rates charged to water users. See the caption "—Projected Water Sources" for water supply projections for the current and next four Fiscal Years.

In Fiscal Year 2020-21, the District transferred amounts from District reserves to pay certain Operation and Maintenance Costs. The 2021 Stabilization Fund will be established on the date of issuance of the 2021 Bonds. In future Fiscal Years, the District could transfer amounts from the 2021 Stabilization Fund to pay Operation and Maintenance Costs or debt service with respect to any Bonds or Contracts instead of transferring amounts from District reserves. See the caption "—2021 Stabilization Fund" under "SECURITY FOR THE 2021 BONDS" in the forepart of this Official Statement.

Investment of District Funds

All funds held by the District are invested in accordance with the District's Statement of Investment Policy. The primary objectives, in priority, are safety of principal, liquidity, and yield. The comprehensive Statement of Investment Policy was last reviewed and adopted by the District on April 27, 2021 and is approved or revised annually as required by State law. On the date of issuance of the 2021 Bonds, the District

expects to hold approximately \$4.3 million in funds, which includes the \$1,166,375 that will be on deposit in the 2021 Stabilization Fund. See the caption “SECURITY FOR THE 2021 BONDS—2021 Stabilization Fund” in the forepart of this Official Statement.

All investments, including the Permitted Investments and those authorized by law from time to time for investments by public agencies, contain a certain degree of risk. Such risks include, but are not limited to, a lower rate of return than expected and loss or delayed receipt of principal.

The District’s Statement of Investment Policy may be changed at any time by the Board (subject to State law provisions relating to authorized investments) and as the California Government Code is amended. There can be no assurance, therefore, that the State law and/or the Statement of Investment Policy will not be amended in the future to allow for investments which are currently not permitted under State law or the Investment Policy or that the objectives of the District with respect to investments or its investment holdings at any point in time will not change.

For additional information with respect to District Cash and Cash Equivalents see Note 2 of APPENDIX B—“PANOCHÉ WATER DISTRICT FINANCIAL STATEMENTS FOR THE YEAR ENDED FEBRUARY 29, 2020, INCLUDING THE INDEPENDENT AUDITOR’S 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” attached hereto.

Outstanding Obligations

The District has no outstanding Bonds or Contract payable for the Contractual Obligation Assessment, Revenue or Net Revenue.

Future Financings

The projected operating results and debt service coverage set forth under the caption “—Projected Operating Results and Debt Service Coverage” do not reflect implementation of any other capital improvements for water system modernization projects since the timing of the issuance of such additional Bonds or Contracts, if any, is unclear at this time. See “—Capital Improvement Program” for a description of the District’s potential modernization projects.

RECENT SETTLEMENTS

The District and the United States entered into a Settlement Agreement on January 15, 2021. The key financial terms of the Settlement Agreement are that the District may be liable to the United States for up to \$8,261,361.00, not including interest (the “Settlement Amount”), for what the United States contends to be the District’s unauthorized diversion of water from the Delta Mendota Canal and the San Luis Canal between 2009 and 2015. In the Settlement Agreement, the United States specifically contended that between on or about January 1, 2009, and April 20, 2015, the District diverted federally-owned water from the Delta-Mendota and San Luis Canals, and that the diversions were unauthorized and that the District did not compensate the United States Bureau of Reclamation for the diversions (collectively, the “Covered Conduct”). The District has made an initial payment of \$1,000,000.00 to the United States as required by the Settlement Agreement. The District intends to fund the remaining amount owed to the United States pursuant to the Settlement Agreement from proceeds of the 2021 Bonds (the “Lump Sum Payment”).

The Settlement Agreement contains one additional term that has a potential monetary impact. The term of the Settlement Agreement relates to the requirement that the District continue to maintain certain programs, policies and procedures, provide certain training, and undergo a limited annual review of the District’s programs, policies, procedures and trainings by an entity or person, such as an accounting or auditing

firm or non-district personnel for the period ending December 31, 2025. This Settlement Agreement term is closely aligned with the District's established Ethics & Compliance Program; therefore, the District expects the cost of compliance with such term to require limited additional administrative expenditure. If the District fails to comply with this term, the Settlement Agreement requires the District to make an annual payment of \$100,000 for each calendar year in which the non-compliance occurs. The District currently expects to comply with these requirements and therefore has not projected any such annual payments.

The Settlement Agreement also provides that Reclamation and the District agreed that the Water Authority sustained damages of \$798,653.00 as a result of the Covered Conduct. The District agreed in the Settlement Agreement to make reasonable efforts to negotiate and resolve the final amount to be paid by the District to the Water Authority for damages resulting from the Covered Conduct and, in return, to obtain release from the Water Authority for the benefit of both the District and the United States relating to the Covered Conduct.

The boards of directors of each of the Water Authority and the District have approved a settlement agreement relating to the Covered Conduct (the "Water Authority Settlement Agreement"). The Water Authority and the District executed the Water Authority Settlement Agreement and the Water Authority Settlement Agreement became effective on July 16, 2021. Under the terms of the Water Authority Settlement Agreement, the District has agreed to pay the Water Authority approximately \$1,100,000.00 in one lump sum payment for damages resulting from the Covered Conduct and related costs (the "Water Authority Settlement Payment"). The Water Authority Settlement Agreement releases the District from liability for certain costs related to the Covered Conduct specified in the Water Authority Settlement Agreement. The District expects to fund the lump sum payment to the Water Authority from proceeds of the 2021B Bonds.

The Water Authority Settlement Agreement only releases the Water District from liability relating to the specific items listed in Water Authority Settlement Agreement. The release of the District under the Water Authority Settlement Agreement does not encompass any claims by individual member agencies of the Water Authority. As of the date of this Official Statement, to the District's knowledge, there are no pending or threatened claims by any member agencies of the Water Authority or other entities relating to the Covered Conduct.

For additional information about these settlements, see Note 13 to the District financial statements for the year ended February 29, 2020 attached hereto as Appendix B.

LITIGATION

General. There are no pending lawsuits contesting or affecting the execution and delivery of the 2021 Bonds, the collection of Revenues or the Contractual Obligation Assessments or, except as described below, which could have a material adverse effect on the District's Water System or the financial condition of the District, including the ability of the District to pay the Series 2021 Installment Payments.

Validation of Proceedings for 9(d) Contracts. In connection with the 9(d) Contract, the District filed an action (the "Validation Action") in the Superior Court for the County of Fresno on February 1, 2021 requesting an order validating the proceedings on the part of the District for the authorization of the execution of the 9(d) Contract pursuant to Chapter 9 (commencing with Section 860) of Title 10 of Part L of the Code of Civil Procedure of the State of California (the "Validation Statute"). In response to the published summons, no challenges to the Validation Action were filed. The Court entered a judgment on April 12, 2021, validating the 9(d) Contract, to the effect, among other things that: that the District had, and at all times relevant has had, the authority to enter into said 9(d) Contract and all of the proceedings of the District and its Board leading up to and including the making and approval of the 9(d) Contract were in all respects legal and valid; that the 9(d) Contract is in all respects valid and binding upon the respective parties thereto. Pursuant to Section 870 of the California Code of Civil Procedure, because no party answered the complaint, the judgment can only be appealed on grounds relating to the jurisdiction of proceedings. The last day to timely file a notice of appeal

was May 12, 2021. The judgment is binding and conclusive in accordance with State law. The District is unaware of any threatened challenge to the judgment.

Center for Biological Diversity, et al. v. United States Bureau of Reclamation, et al. On May 20, 2020, the Center for Biological Diversity, Restore the Delta, and the Planning and Conservation League filed a complaint against Reclamation, David Bernhardt, in his official capacity as Secretary of the Interior, and the United States Department of the Interior for declaratory and injunctive relief. Through their complaint, the Center for Biological Diversity et al. seek an order and judgment setting aside and rescinding 14 repayment contracts. The Center for Biological Diversity et al. claim Reclamation by executing the 14 repayment contracts, violated NEPA, the Administrative Procedures Act, and the Endangered Species Act. The Center for Biological Diversity et al. also seek an order and judgment restraining Reclamation from entering into any other repayment contracts. In August 2020, the federal defendants moved for an order from the Court requiring plaintiffs to join water contractors whose contracts they seek to affect or dismiss the case. Center for Biological Diversity et al. opposes this motion, arguing that they should not be required to join all affected water contractors, but also stating they would not oppose the intervention of water contractors if representation of the contractors was consolidated. As of the date of this Official Statement, the motion remains pending. The District does not currently expect that this lawsuit will have a material adverse effect on the ability to pay the Series 2021 Installment Payments.

North Coast Rivers Alliance, et al., v. US Department of Interior. In March of 2016, North Coast Rivers Alliance, California Sportfishing Protection Alliance, Pacific Coast Federation of Fishermen's Associations, San Francisco Crab Boat Owners Association, Inc., and Institute for Fisheries Resources filed a lawsuit captioned North Coast Rivers Alliance, et al., v. US Department of Interior ("Federal Defendants") in the District Court seeking an order overturning Reclamation's 2016 Environmental Assessment and Finding of No Significant Impact for certain interim renewal contracts. Although the interim renewal contracts that were the subject of the 2016 Environmental Assessment were since renewed, the Court retained jurisdiction because the short duration and serial nature of interim water service contracts placed plaintiffs' claims within the mootness exception for disputes capable of repetition yet evading review. Cross-motions for summary judgment on the merits of certain aspects of the remaining claims in the case were pending before the Court. The Court subsequently recognized that its finding that the claims were capable of repetition, yet evading review, may have been affected by efforts to convert water service contracts to 9(d) contracts, pursuant to the WIIN Act. Pursuant to Court order, Reclamation has been updating the Court on the efforts to convert water service contracts to 9(d) contracts. On March 30, 2020, the Court issued an order requiring Reclamation to continue providing updates periodically as well as if the current trajectory of WIIN Act conversions of certain water services contracts materially changes. The Court also (1) directed the Clerk of Court to administratively terminate the pending cross-motions for summary judgment and (2) informed the parties that it would notify the parties if and when it determines that it is appropriate to rule on those motions or whether it will require further briefing from the parties addressing the issue of mootness.

Plaintiffs amended their complaint to add challenges to Reclamation's authority to enter into repayment contracts under NEPA, federal validation statutes, and other federal laws. Plaintiffs' amended complaint seeks a judgment from the Court that Reclamation's approval of repayment contracts that have already been executed be "set aside" and Reclamation be enjoined from executing additional repayment contracts until an environmental impact study is completed. On October 7, 2020, the District, Westlands Water District and San Luis Water District jointly moved to dismiss the remaining challenges to the interim contracts as moot because those contracts are no longer operative, and to require Plaintiffs to either join other water contractors whose repayment contracts they seek to affect or dismiss these claims. The federal defendants moved to dismiss the interim contract claims as moot. Pursuant to a minute order issued by the Court, the federal defendant's motion will be determined by the filings made by the parties, and hearing will not be held on the motion unless the Court determines that one is necessary. If the Court were to order that the District's 9(d) Contract be set aside, and the District was not able to enter into a revised repayment contract or an interim or long-term renewal contract with the Reclamation for the delivery of CVP water, there would be a material adverse effect on the District's sources of water supply, which would in turn have a material adverse

effect on Revenues. In the event that Contractual Obligation Assessments were insufficient to pay the full amount of the Series 2021 Installment Payments, and the District was required to pay all or a portion of the Series 2021 Installment Payments from Net Revenues, the lack of a contract for CVP water would have a material adverse effect on the District's ability to make the Series 2021 Installment Payments.

Pacific Coast Federation of Fishermen's Associations et al. v. Ross, et al./California Natural Resources Agency et al. v. Ross, et al. On or about December 2, 2019, Pacific Coast Federation of Fishermen's Association ("PCFFA") and several other Non-Governmental Organizations filed lawsuit challenging biological opinions that analyzed coordinated operations of the CVP and SWP, issued by the FWS and NMFS. PCFFA et al. subsequently filed an amended complaint which added a challenge to Reclamation's issuance of a Record of Decision for the coordinated operations and reliance on the biological opinions. On February 20, 2020, the Attorney General of California, California Natural Resources Agency and California Environmental Protection Agency (collectively, the "State Agencies") filed a similar complaint, which also challenges the biological opinions, Reclamation's record of decision and its reliance on the biological opinions and claims violations of the California Endangered Species Act. Both PCFFA et al. and the State Agencies asked the Court for declaratory and injunctive relief and preliminary and permanent injunctions.

On March 5, 2020, PCFFA et al. filed a motion for preliminary injunction to enjoin CVP operations until the Court resolves the merits of PCFFA et al.'s claims. On April 21, 2020, the State Agencies also filed a motion for preliminary injunction to enjoin CVP operations until May 31, 2020. The motions were argued on May 7, 2020.

On May 11, 2020, the Court issued two orders, one in the State Agencies case and one in the PCFFA et al. case. The order in the State Agencies case granted their request for a preliminary injunction, and the order in the PCFFA et al. case granted in part and denied in part as moot for preliminary injunction and holding certain issues in abeyance. The Court indicated, for those aspects of PCFFA's motion held in abeyance, it intends to issue a separate order "in the near future" and, on June 24, 2020, the Court issued an order denying the motion based on those issued previously held in abeyance.

The effect of the two orders is that Reclamation operated the C.W. "Bill" Jones Pumping Plant at minimum levels from May 12, 2020 through May 31, 2020. On May 19, 2020, Reclamation increased the allocation to the District and other agricultural water service contractors to 20%. On or about September 23, 2020, the federal defendants lodged the records supporting the challenged federal agency decisions. On or about December 18, 2020, the State Agencies and PCFFA et al. filed motions to complete the administrative records or, in the alternative, supplement the administrative records. Briefing on those motions continues. The District now anticipates that the Court will not resolve the motions until June 2021, and that the Court will schedule dates for briefing on the merits thereafter. The District is not able to determine if an adverse ruling in this action will have material adverse effects on the ability to pay principal of and interest on the 2021 Bonds.

North Coast Rivers Alliance et al. v. Department of Water Resources et al. On January 16, 2019, North Coast Rivers Alliance, Institute for Fisheries Resources, Pacific Coast Federation of Fishermen's Associations, San Francisco Crab Boat Owners Association, and Winnemem Wintu Tribe ("Petitioners") filed a "Verified Petition for Writ of Mandate and Complaint for Declaratory and Injunctive Relief and for Attorneys' Fees" ("Petition") in Sacramento Superior Court challenging in part approval of the Addendum to the Agreement Between the United States of America and DWR for Coordinated Operation of the Central Valley Project and the State Water Project ("COA Addendum"). The Petition alleges in part that, by entering in the COA Addendum, DWR violated CEQA, the Delta Reform Act, and the Public Trust Doctrine. The North Delta Water Agency ("NDWA") was granted leave to intervene in the action, and it filed a Complaint in Intervention alleging that the COA Addendum allows reductions in water quality and/or supply that can cause harm to crops in NDWA's service area. The COA Addendum amends four elements of the 1986 Agreement to reflect the evolved manner in which the CVP and SWP have coordinated operations since the 1986 Agreement was signed. The administrative record for the action is being prepared. The Court has not yet scheduled any

dates for briefing, hearing or ruling on the merits. The District is not able to determine if an adverse ruling in this action will have material adverse effects on the ability to pay principal of and interest on the 2021 Bonds.

Hoopa Valley Tribe v. United States Bureau of Reclamation, et al. On August 13, 2020, the Hoopa Valley Tribe filed a complaint in United States District Court for the Northern District of California, Eureka Division against Reclamation, David Bernhardt in his official capacity as Secretary of the United States Department of Interior, Brenda Burman in her official capacity as Commissioner of Reclamation, Ernest Conant in his official capacity as Reclamation's California-Great Basin Regional Director, and the United States Department of Interior. The Hoopa Valley Tribe also seeks rescission of any conversion of interim renewal contracts for CVP water into permanent repayment contracts and enjoinder of Reclamation from converting or amending any additional interim renewal contracts into permanent repayment contracts. If the court grants an injunction with respect to any additional conversions or amendments of interim renewal contracts into repayment contracts, District cannot predict the effect that such injunction would have on the effectiveness of the 9(d) Contract. On October 7, 2020, Reclamation and United States Department of Interior moved to transfer the case to the Eastern District. In their motion, Reclamation and the United States Department of Interior also asserted that WIIN Act water contractors are "necessary parties" that should be joined to the case and stated their intent to move to consolidate this case with the two other WIIN Act cases (Center for Biological Diversity et al. and North Coast Rivers Alliance et al.) in front of the same judge (Judge Dale Drozd) once the case is transferred. On October 26th, Reclamation and the United States Department of Interior moved to dismiss only the Hoopa Valley Tribe's claim under the CVPIA. The motion to dismiss also seeks to compel joinder of required parties. A virtual hearing on the motion to transfer and the motion to dismiss was heard by the Court on December 10, 2020. On December 21, 2020, the Court issued an order granting the motion to transfer the case from the Northern District of California to the Eastern District of California. The Court indicated that the District's motion to intervene, as well as the motion by Reclamation and United States Department of Interior, will need to be re-noticed after transfer. The case has since been assigned to United States District Judge Dale Drozd. If the court were to order that the District's 9(d) Contract be rescinded, and the District was not able to enter into a revised repayment contract or an interim or long-term renewal contract with the Reclamation for the delivery of CVP water, there would be a material adverse effect on the District's sources of water supply, which would in turn have a material adverse effect on Revenues. In the event that Contractual Obligation Assessments were insufficient to pay the full amount of the Series 2021 Installment Payments, and the District was required to pay all or a portion of the Series 2021 Installment Payments from Net Revenues, the lack of a contract for CVP water would have a material adverse effect on the District's ability to make the Series 2021 Installment Payments.

City of Fresno, et al. v. United States of America. On October 5, 2016, the City of Fresno and 17 other water, irrigation and utility districts filed a lawsuit captioned City of Fresno, et al. v. United States of America. Plaintiffs allege that Reclamation violated the Fifth Amendment of the United States Constitution by appropriating Plaintiffs' water without just compensation.

Each Plaintiff has a water supply contract to receive water from the facilities of the Friant Division of the Central Valley Project. In water year 2014, Reclamation appropriated all of the water of the Friant Division of the Central Valley Project of California in order to satisfy what it determined to be a contractual requirement to provide substitute water to a group of water users referred to as the Exchange Contractors who had invoked their senior water rights during drought. Plaintiffs allege that there were other water supplies sufficient to satisfy the Exchange Contractors. As a result of such appropriation, Plaintiffs allege that they (and the landowners and water users Plaintiffs represent) suffered crop losses, loss of groundwater reserves, water shortages and rationing, and incurred millions of dollars to purchase emergency water supplies.

The Complaint includes the allegation that the United States acquired water and water rights for the benefit of Plaintiffs, not for the use of the government, and that such water rights became property of the landowners. The validation of such a claim could potentially impact future CVP water allocation. The case concluded the preliminary motion stage in March 2020, with the result that the plaintiffs' takings claims were dismissed while the breach of contract claims survived. The case is now in the pre-trial discovery stage and

the trial is currently anticipated to occur in late 2021. The District does not currently expect that this lawsuit will have a material adverse effect on the ability to pay the Series 2021 Installment Payments.

AquAlliance et al. v. United States Bureau of Reclamation. On May 11, 2020, AquAlliance, California Sportfishing Protection Alliance, California Water Impact Network, Central Delta Water Agency, and South Delta Water Agency filed with the United States District Court a complaint for declaratory and injunctive relief and petition for writ of mandate, challenging what is commonly referred to as the “Long-Term Water Transfers” program. The Long-Term Water Transfers program provides environmental coverage during the period 2020 through 2024 for a range of potential water transfers from water contractors north of the Sacramento-San Joaquin Delta to CVP water contractors south of the Sacramento-San Joaquin Delta, including the District. AquAlliance et al. allege, when approving that program: (1) Reclamation violated NEPA, (2) the Water Authority violated the CEQA, and (3) the Water Authority abridged and abrogated its public trust duties. On June 5, 2020, plaintiffs in this action filed an amended complaint and petition, which added a claim against the United States Fish and Wildlife Service (the “FWS”) alleging that the FWS issued a biological opinion for the program and, by its actions, was arbitrary, capricious, and failed to proceed as required by law, including the federal Endangered Species Act. On or about January 4, 2021, AquAlliance et al. and the federal defendants filed a stipulation, and on January 6, 2021, the Court issued an order that authorizes AquAlliance et al. to file a second amended complaint. On January 8, 2021, AquAlliance et al. filed a second amended complaint that alleges Reclamation violated the federal Endangered Species Act by accepting the biological opinion issued by the FWS and implementing the program. The District is not a party to the litigation. AquAlliance et al. have not sought monetary damages; however, AquAlliance et al. may seek to recover their attorneys’ fees and costs. Such attorneys’ fees and costs, if awarded, would be payable by the members of the Water Authority, including the District. The District does not anticipate that a ruling adverse to Reclamation, FWS, or the Water Authority would have a material adverse effect on the District’s the ability to pay the Series 2021 Installment Payments.

Pacific Gas and Electric Company, Wholesale Distribution Tariff, FERC Docket Nos. ER20-2878-000 et seq. On September 15, 2020, pursuant to Section 205 of the Federal Power Act and Section 35.13 of the Regulations of the Federal Energy Regulatory Commission (“FERC”), Pacific Gas and Electric Company (“PG&E”) submitted for filing proposed rate changes and revisions to certain non-rate terms and conditions of PG&E’s Wholesale Distribution Tariff (“WDT”). PG&E also submitted for filing related proposed rate changes to the existing Service Agreements for Wholesale Distribution Service (“WDT Service Agreements”) of eight customers: the City and County of San Francisco, the Port of Oakland, the Power and Water Resources Pooling Authority, the Shelter Cove Resort Improvement District No. 1, the Westside Power Authority and WAPA. The proposed changes, if accepted by FERC, will impact the rates the District pays to WAPA (through Reclamation) for distribution of power generated by the CVP as well as for power acquired by WAPA under long-term and annual supplemental purchase arrangements. The District is still assessing the extent of impact, but the proposed changes could result in an increase in WDT charges of over 500% on average compared to current charges.

The District is not a party in the FERC proceedings in which the proposed changes will be considered. However, as a result of the proceedings, PG&E’s WDT rates and rate methodologies may change, albeit in potentially different ways from what PG&E has proposed, and those changes are likely to increase the amount the District pays to WAPA (through Reclamation). As is not uncommon in the case of a contested rate filing, FERC ordered the rates and rate methodologies, as proposed by PG&E, to become effective on April 15, 2021, subject to adjustments and, if appropriate, refund based terms established through settlement or order by FERC that resolves the proceedings. The District does not currently expect that this lawsuit will have a material adverse effect on the ability to pay the Series 2021 Installment Payments.

Stephen Sloan v Panoche Water District (Fresno County Superior Court Case 18CECG00511). In 2018, the plaintiff filed a complaint alleging that the District breached a multi-year agreement with the plaintiff to purchase well water from the plaintiff. Damages claimed by the plaintiff under such action are \$2.1 million for five years. In January 2020, the District filed a motion of summary judgement based on the plaintiff’s

failure to make a government claim. On February 24, 2021, the trial court granted the motion and rendered judgment in favor of the District and dismissed the case. In April 2021, the plaintiff appealed the court's order, and the District expects to continue to diligently defend the case. The District cannot predict when the matter will be resolved or the ultimate outcome of the litigation. The District does not believe that an adverse outcome in such case would materially adversely affect the District's ability to pay the Series 2021 Installment Payments.

Imani Percoats and Chris Bettencourt v. Panoche Water District (Fresno County Superior Court Case 18CECG01651). In 2018, the plaintiffs filed a complaint against the District alleging that the District failed to pay the plaintiffs overtime pay in the amount required by California law. A trial date for this matter is currently set for December 13, 2021. The District believes that it has a strong defense to the claims raised by the plaintiffs and will continue to diligently defend against such claims. The District does not believe that an adverse outcome in such case would materially adversely affect the District's ability to pay the Series 2021 Installment Payments.

USEPA Action. Due to the litigation filed by the California Department of Justice against certain former District employees discussed under "California Department of Justice Action" below, the United States Environmental Protection Agency ("USEPA") in April 2018, issued a Notice of Suspension to District and Panoche Drainage District suspending the two districts from participation on future federal contracts. The suspension was subsequently reversed and a notice to show cause issued. The District submitted documentation of its present responsibility to act as a federal contractor and provided supplemental information in the fall of 2019. The District's understanding is that USEPA has not yet acted in response to that submittal, but the District does not expect any further action by the USEPA based upon the issues in that proceeding. The District is currently an authorized federal contractor, and currently has no reason to believe that this matter will have an adverse material affect on the District's ability to pay the Series 2021 Installment Payments.

California Department of Justice Action. Commencing in approximately May 2016, the District was subject to investigation by the California Department of Justice relating to issues regarding the handling and disposal of chemicals under the jurisdiction of the Department of Toxic Substance Control. The investigation also potentially relates to whether personnel of the District may have misused District credit cards, issued or received District loans to public employees, or violated requirements under the Fair Political Practices Act. On February 20, 2018, the California Department of Justice filed a felony complaint against the former General Manager, former office manager, two former employees and one employee (since separated from the District), *People v. Cascia*, Fresno County Superior Court Case No. F18901227. Following a preliminary hearing, two former employees were held over for trial on three counts each of embezzlement of public funds, and one was held over on one count of unlawful disposal of hazardous waste. As of the date of this Official Statement, the District does not expect the California Department of Justice to commence a criminal or civil action against the District in connection with this matter, and currently has no reason to believe that this matter will have an adverse material affect on the District's ability to pay the Series 2021 Installment Payments.

PCFFA v. Glaser. A coalition of fishermen's organizations filed suit against the Water Authority, of which the District is a member, in 2011. This lawsuit remains pending, although the District is not individually named. Plaintiffs allege that the Authority and the United States Bureau of Reclamation have violated the Clean Water Act by failing to obtain a National Pollution Elimination System Discharge (the "NPDES") permit for discharges of drainage water from the Grassland Bypass Project, conducted under the Water Authority's Grassland Basin Drainage Management Activity Agreement, in which the District participates. The Water Authority and Reclamation maintain there is no such violation because the discharges fit within the exemptions from the NPDES permit requirements. The case, having been remanded back to the District Court, involves legal theories and claims that were not addressed previously to determine whether or not an NPDES permit is required for discharges from the Grasslands Bypass Project through the San Luis Drain. The Water Authority's response remains that it denies that an NPDES permit is required and the District and the Water Authority believe the defenses are meritorious. At the present time, the possibility of an

unfavorable outcome for the Water Authority, and therefore for the members of the Water Authority's Grassland Basin Drainage Management Activity Agreement, is possible but not probable, though at this time the District does not have sufficient information to determine the potential amount of liability in the event of an adverse ruling.

Other. There exist lawsuits and claims against the District which are incidental to the ordinary course of business of the operation of the District. In the view of the District's general counsel, no such incidental litigation, present or pending, will individually or in the aggregate have an adverse material affect on the District's ability to pay the Series 2021 Installment Payments.

CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES

Article XIII B

The State Constitution limits the annual appropriations of the State and of any city, county, school district, authority or other political subdivision of the State to the level of appropriations of the particular governmental entity for the prior fiscal year, as adjusted for changes in the cost of living and population. The "base year" for establishing such appropriation limit is the 1978-79 fiscal year and the limit is to be adjusted annually to reflect changes in population and consumer prices. Adjustments in the appropriations limit of an entity may also be made if: (i) the financial responsibility for a service is transferred to another public entity or to a private entity; (ii) the financial source for the provision of services is transferred from taxes to other revenues; or (iii) the voters of the entity approve a change in the limit for a period of time not to exceed four years.

Appropriations subject to Article XIII B generally include the proceeds of taxes levied by the State or other entity of local government, exclusive of certain State subventions and refunds of taxes. "Proceeds of taxes" include, but are not limited to, all tax revenues and the proceeds to an entity of government from: (a) regulatory licenses, user charges, and user fees (but only to the extent such proceeds exceed the cost of providing the service or regulation); and (b) the investment of tax revenues. Article XIII B includes a requirement that if an entity's revenues in any year exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

Certain expenditures are excluded from the appropriations limit including payments of indebtedness existing or legally authorized as of January 1, 1979, or of bonded indebtedness thereafter approved by the voters and payments required to comply with court or federal mandates which without discretion require an expenditure for additional services or which unavoidably make the providing of existing services more costly.

The District is of the opinion that the rates imposed by the District do not exceed the costs that the District reasonably bears in providing water service. The District will covenant in the 2021 Installment Purchase Agreement that, to the fullest extent permitted by law, it will prescribe rates and charges sufficient to provide Net Revenues for payment of the Series 2021 Installment Payments as described under the caption "SECURITY FOR THE 2021 BONDS—Rate Covenant."

Proposition 218

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

Article XIII D. Article XIII D defines the terms "fee" and "charge" to mean "any levy other than an ad valorem tax, a special tax or an assessment, imposed by an agency upon a parcel or upon a person as an

incident of property ownership, including user fees or charges for a property-related service.” A “property related service” is defined as “a public service having a direct relationship to property ownership.” Article XIIID further provides that reliance by an agency on any parcel map (including an assessor’s parcel map) may be considered a significant factor in determining whether a fee or charge is imposed as an incident of property ownership.

Article XIIID 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, if and to the extent that a fee or charge imposed by a local government for water service is ultimately determined to be a “fee” or “charge” as defined in Article XIIID, the local government’s ability to increase such fee or charge may be limited by a majority protest.

The notice, hearing, and protest procedures in Article XIIID have not been held to apply to agricultural-only water service which is based on the voluntary decision by landowners to receive water for agricultural purposes. The District will continue to monitor developments in the case law to ensure compliance with Article XIIID. If a ratepayer or other plaintiff successfully challenges the District’s decision not to follow the procedures in Article XIIID, the District’s rates for water service could be set aside or potentially refunded. The District would then be required to comply with Article XIIID going forward.

The District has complied with the procedural requirements of Article XIIID for its land-based assessments, which are not considered “property-related fees” but special assessments. Under Article XIIID, assessments must be based on the proportional special benefit provided to parcels as supported by an engineer’s report. Assessments further require a majority protest proceeding by affected owners. This process requires notices to affected property owners and the opportunity to submit a ballot in favor or against the proposed assessment at or before a hearing. A majority protest exists if, upon the conclusion of the hearing, ballots submitted in opposition to the assessment exceed the ballots submitted in favor of the assessment. In tabulating the ballots, the ballots are weighted according to the proportional financial obligation of the affected property. The District has levied a new assessment to provide a dedicated funding source of the 2021 Bonds and related obligations. The procedures the District took to impose this assessment comply with the requirements of Article XIIID.

Article XIIIC. Article XIIIC provides that the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge and that the power of initiative to affect local taxes, assessments, fees and charges shall be applicable to all local governments. Article XIIIC does not define the terms “local tax,” “assessment,” “fee” or “charge,” so it was unclear whether the definitions set forth in Article XIIID referred to above are applicable to Article XIIIC. Moreover, the provisions of Article XIIIC are not expressly limited to local taxes, assessments, fees and charges imposed after November 6, 1996. On July 24, 2006, the State Supreme Court held in the Bighorn Case that the provisions of Article XIIIC included property-related rates and fees charged for water use. In the decision, the Court noted that the decision did not address whether an initiative to reduce fees and charges could override statutory rate setting obligations.

On August 3, 2020, the State Supreme Court issued an opinion in *Wilde v. City of Dunsmuir* (Cal. S. Ct. S252915) holding that taxpayers do not have the right under Proposition 218 to challenge property-related water rates by referendum, and the District does not believe that Article XIIIC grants to the voters within the District the power (whether by initiative under Article XIIIC or otherwise, or by referendum, which is not addressed by Article XIIIC) to repeal or reduce rates, charges, or assessments for the Water Service in a manner that would interfere with the contractual obligations of the District or the obligation of the District to maintain and operate the Water System. However, there can be no assurance of the availability of particular remedies adequate to protect the beneficial owners of the 2021 Bonds. Remedies that are available to Beneficial Owners of the 2021 Bonds in the event of a default by the District are dependent upon judicial

actions which are often subject to discretion and delay and could prove both expensive and time consuming to obtain. So long as the 2021 Bonds are held in book-entry form, DTC (or its nominee) will be the sole registered owner of the 2021 Bonds and the rights and remedies of the 2021 Bond Owners will be exercised through the procedures of DTC.

In addition to the specific limitations on remedies contained in the applicable documents themselves, the rights and obligations with respect to the 2021 Bonds, the 2021 Installment Purchase Agreement and the Trust Agreement are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, and to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State. The various opinions of counsel to be delivered with respect to such documents, including the opinion of Bond Counsel (the form of which is attached as Appendix D), will be similarly qualified.

The District believes that its current water rates, land-based charges, and assessments comply with the requirements of Proposition 218 to the extent they are applicable and expects that any future levies will comply with Proposition 218's procedural and substantive requirements to the extent they are applicable.

Proposition 26

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

Future Initiatives

Articles XIII B, XIII C and XIII D were adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time other initiatives could be proposed and adopted affecting the District's revenues or ability to increase revenues.

Execution and Delivery

The execution and delivery of this Appendix have been duly authorized by the District.

PANOCHE WATER DISTRICT

By: /s/ John Bennett
President

APPENDIX B

**PANOCHÉ WATER DISTRICT FINANCIAL STATEMENTS,
INCLUDING THE AUDITOR'S REPORT ON INTERNAL
CONTROL OVER FINANCIAL REPORTING AND OTHER MATTERS**

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**PANOCHE WATER DISTRICT
FIREBAUGH, CALIFORNIA**

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
FEBRUARY 29, 2020**

**PANOCHÉ WATER DISTRICT
FINANCIAL STATEMENTS
FEBRUARY 29, 2020**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Panoche Water District
Firebaugh, California

Report on the Financial Statements

We have audited the accompanying financial statements of Panoche Water District (the "District") as of and for the year ended February 29, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

570 N. Magnolia Avenue, Suite 100
Clovis, CA 93611
tel 559.299.9540
fax 559.299.2344

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Panoche Water District, as of February 29, 2020 and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standard

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2021, on our consideration of Panoche Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Price Pange & Company

Clovis, California
March 10, 2021

**PANOCHÉ WATER DISTRICT
STATEMENT OF NET POSITION
FEBRUARY 29, 2020**

ASSETS

Current assets:

Cash and cash equivalents	\$ 9,237,583
Accounts receivable	5,649,959
Employees receivable	22,793
Interest receivable	27,257
Current portion of notes receivable	520,338
Water inventory	1,305,378
Supplies inventory	71,826
Prepaid expense	<u>106,599</u>

Total current assets 16,941,733

Other assets:

Noncurrent portion of notes receivable	636,943
Capital assets	<u>10,721,250</u>

Total other assets 11,358,193

Total assets 28,299,926

LIABILITIES

Current liabilities:

Accounts payable and accrued expenses	1,872,306
Prepayments/prebillings on account	1,339,016
Current portion of noncurrent liabilities	<u>1,053,578</u>

Total current liabilities 4,264,900

Noncurrent liabilities:

Notes payable	2,161,889
Settlement payable to United States Bureau of Reclamation	<u>7,261,461</u>

Total noncurrent liabilities 9,423,350

Total liabilities 13,688,250

NET POSITION

Net investment in capital assets	10,721,250
Unrestricted	<u>3,890,426</u>

Total net position \$ 14,611,676

The notes to the basic financial statements are an integral part of this statement.

**PANOCHE WATER DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED FEBRUARY 29, 2020**

OPERATING REVENUES	
Irrigation water sales	\$ 10,522,624
District operations and maintenance	7,642,685
Expense reimbursements from other governments	3,799,018
Other operating revenue	<u>572,649</u>
Total operating revenues	<u>22,536,976</u>
OPERATING EXPENSES	
Water costs	10,669,327
Transmission and distribution	3,342,013
Administration and general	5,674,380
Depreciation	1,205,840
General plant	<u>1,484,992</u>
Total operating expenses	<u>22,376,552</u>
Operating income (loss)	<u>160,424</u>
NONOPERATING REVENUES (EXPENSES)	
Interest revenue	198,744
Sale of capital assets	5,100
Interest expense	(113,306)
Legal settlement expense	<u>(8,261,461)</u>
Total nonoperating revenues (expenses)	<u>(8,170,923)</u>
Change in net position	(8,010,499)
Net position, beginning of year	<u>22,622,175</u>
Net position, end of year	<u>\$ 14,611,676</u>

The notes to the basic financial statements are an integral part of this statement.

**PANOCHE WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED FEBRUARY 29, 2020**

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 21,048,197
Payments to suppliers	(18,145,582)
Payments to employees	<u>(3,030,179)</u>
Net cash provided by (used in) operating activities	<u>(127,564)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets (capital outlay)	(79,444)
Gross proceeds from sale of equipment	5,100
Interest paid on noncurrent liabilities	<u>(113,306)</u>
Net cash provided by (used in) capital and related financing activities	<u>(187,650)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Payments received on loans to others	176,315
Principal paid on noncapital noncurrent liabilities	<u>(50,900)</u>
Net cash provided by (used in) noncapital financing activities	<u>125,415</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest revenue	<u>203,104</u>
Net cash provided by (used in) investing activities	<u>203,104</u>
Net increase (decrease) in cash	13,305
Cash and cash equivalents, beginning of year	<u>9,224,278</u>
Cash and cash equivalents, end of year	<u>\$ 9,237,583</u>
Supplemental disclosure of cash flow information:	
Noncash financing activities, legal settlement obligations	<u>\$ 8,261,461</u>
Cash paid for interest (net of amount capitalized)	<u>\$ 113,306</u>

The notes to the basic financial statements are an integral part of this statement.

**PANOCHE WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED FEBRUARY 29, 2020
(Continued)**

**Reconciliation of Operating Income (Loss) to Net Cash Provided by
(Used in) Operating activities:**

Operating income (loss)	\$ 160,424
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Depreciation	1,205,840
(Increase) decrease in accounts receivable	(2,229,964)
Increase (decrease) in prepayments/prebillings on account	741,186
(Increase) decrease in inventory	(592,116)
Increase (decrease) in prepaid expenses	42,373
Increase (decrease) in accounts payable and accrued expenses	<u>544,693</u>
 Net cash provided by (used in) operating activities	 <u><u>\$ (127,564)</u></u>

The notes to the basic financial statements are an integral part of this statement.

**PANOCHÉ WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FEBRUARY 29, 2020**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Panoche Water District (the “District”) was formed in 1950 pursuant to the California Water District Act to furnish irrigation water to District land in Fresno and Merced Counties, California. Land eligible for water provided by the District as of February 20, 2020 approximated 38,000 acres. The District has entered into a contract with the United States Bureau of Reclamation providing for delivery of water to the District from the Delta-Mendota and San Luis Canals of the Central Valley Project. Such contracts also include a forty-year renewal provision.

The District adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* in 2004. GASB 34 established standards for external financial reporting for all state and local governmental entities which includes a management’s discussion and analysis section, a statement of net position, a statement of activities and changes in net position and a statement of cash flows. It requires the classification of net position into three components: net investment in capital assets, restricted, and unrestricted.

Financial Reporting Entity

The Panoche Water District Financing Corporation (the “Corporation”) is a component unit of the District as the Corporation’s governing board is appointed by the District’s Board of Directors and consists of all the members of the District’s Board of Directors. The District does not have a relationship with any other related activities, organizations or functions of government which should be included in the financial reporting entity of the District as required by GASB Statement No. 14, *The Financial Reporting Entity*. In addition, the District is not a component unit of any other governmental entity.

Basis of Presentation and Accounting

The financial statements of the District are presented using the full accrual method of accounting and conform to accounting principles generally accepted in the United States of America and with the policies and procedures of the office of the State Controller, State of California.

The accounts of the District are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a set of accounts that comprise the District’s assets, liabilities, net position, revenues and expenses. Enterprise funds account for activities (i) that are financed with debt that is secured solely by a pledge of the net revenue from fees and charges of the activity; or (ii) that are required by law or regulation that the activity’s costs of providing services, including capital costs (such as depreciation or debt service) be recovered with fees and charges, rather than with taxes or similar revenue; or (iii) that the pricing policies of the activity establishes fees and charges designated to recover its costs, including capital costs (such as depreciation or debt service).

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus all assets and all liabilities associated with the operations are included on the statement of net position. Net position (i.e., total assets less total liabilities) are segregated into net investment in capital assets, restricted and unrestricted components.

**PANOCHÉ WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FEBRUARY 29, 2020**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgetary Procedures

The District operates under a budget prepared and approved by the Board of Directors. The budget is prepared on a detailed line-item basis. Revenue is budgeted by use (services and supplies, other charges, water supply and contingencies). Once approved, the Board of Directors may amend the adopted budget when unexpected modifications are required in estimated revenues and expenditures or expenses.

The District follows these procedures in establishing the budgetary data: (a) prior to the beginning of the year, the budget is legally enacted through passage of a resolution; (b) budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America, except that loan and bond proceeds are treated as other financial sources and loan and bond principal payments and fixed asset purchases are treated as expenditures.

Assets, Liabilities and Net Position

Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Inventory

Panoche Water District accounts for water inventory consisting of water purchases in the current fiscal year and sold in the following fiscal year, such as: USBR CVP (Central Valley Project) Contract Water, Exchange Contractor water, Non-Project water, Wells, and Transfers. The District began a vigorous process of tracking all components of water inventory on a monthly basis. The new process accounts for any usage, transfers, or losses for the purposes of financial statement presentation. Water inventory is valued at cost using the average-cost method.

Supplies inventory consist of materials and supplies for ongoing maintenance of the District's facilities. Supplies inventory is valued at cost.

Capital Assets

Capital assets (fixed assets) are stated at historical cost, except for donated assets, which are stated at fair value on the date donated. It is the policy of the District to capitalize all property, plant and equipment, except equipment with a cost of less than \$5,000. Costs of assets sold or retired are eliminated from the accounts in the year of disposition and the resulting proceeds (if any) are recorded as proceeds of sales in the applicable fund. Depreciation is recorded using the straight-line method. The estimated useful life for the irrigation distribution system of the District is 50 years.

Operating Revenue and Expense

Operating revenues and expenses consist of those revenues that result from ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Nonoperating revenues and expenses consist of those revenue and expense items that are related to financing and investing types of activities and result from nonexchange transactions or ancillary activities. When an expense is incurred for purposes for which there are both restricted and unrestricted net position available, it is the District's policy to apply those expenses to restricted net position to the extent such is available and then to unrestricted net position.

**PANOCHÉ WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FEBRUARY 29, 2020**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Position (Continued)

Net Position

Net position comprises the various net earnings from operating income, nonoperating revenue, expenses and capital contributions. Net position is classified in the following three components:

Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvements of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net components as the unspent proceeds.

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

Unrestricted net positions – This component of net position consists of net position that does not meet the definition of restricted or net investment in capital assets.

Estimates

Presentation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 – CASH AND CASH EQUIVALENTS

Unrestricted cash and cash equivalents as of February 29, 2020 consist of the following:

Cash in bank - business checking and savings	\$ 998,515
Local Agency Investment Fund	<u>8,239,068</u>
 Total	 <u>\$ 9,237,583</u>

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 District maintains its cash balances in one financial institution, Rabobank, N.A. The balances are insured by the federal deposit insurance corporation up to \$250,000.

The District's deposits as of February 29, 2020, were entirely covered by federal depository insurance or otherwise collateralized. The Government Code of the State of California requires California financial institutions to secure District deposits by pledging government securities as collateral.

The market value of pledged securities must equal at least 110 percent of the District's deposits. California law also allows financial institutions to secure the District's deposit by pledging first deed of mortgage notes having a value of at least 150 percent of the District's total deposit.

**PANOCHÉ WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FEBRUARY 29, 2020**

NOTE 2 – CASH AND CASH EQUIVALENTS (Continued)

Investments Authorized

The District strives to maintain the level of investment of idle funds as near to 100% as possible and operates its pooled idle cash investments under the Prudent Investor Standard. This affords a broad spectrum of investment opportunities so long as the investment is deemed prudent and is permissible under currently effective legislation of the State of California and other imposed legal restrictions. Permitted investments are identified in Section 53635 of the Government Code of California. Criteria for selecting investments and the absolute order of priority are safety, liquidity and yield. The primary basic premise underlying the District's investment policy is to insure the safety of principal and to provide funds when needed. A high dollar yield on investments, though important, ranks third in the priority of investment strategy.

Investment maturities are selected to anticipate cash needs, thereby obviating the need for forced liquidation and the accompanying loss of interest income.

The District operates its investment program with many Federal, State and self-imposed constraints. It does not buy stocks; it does not speculate; it does not deal in futures, options or security loan agreements. Longer term investments (over one year) are generally limited to maturities of five years or less.

To maximize investment income, the District uses all available, economically feasible investment aids. Economic conditions and various money markets are monitored in order to assess the probable course of interest rates.

Local Agency Investment Fund (LAIF)

The District participates in an external investment pool by way of its funds on deposit in the Local Agency Investment Fund (LAIF) managed by the State of California Treasurer and is not registered with the Securities and Exchange Commission. These funds are pooled with those of other agencies in the State and invested in accordance with State guidelines. The value of the District's shares in the LAIF that may be withdrawn is determined on an amortized costs basis, which may be different from the fair value of the District's position in the pool. The District's portion of the February 29, 2020 balance was \$8,239,068.

Credit Rate Risk

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. At February 29, 2020, the Local Agency Investment Fund managed by the State of California and was not rated.

Concentration of Credit Rate Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) did not exceed 5% or more of total District investments.

Fair Value

LAIF investment pool invests in numerous types of investments ranging all levels in the fair value hierarchy, and accordingly, is not an investment type that can be categorized in any particular level in the fair value hierarchy.

**PANOCHÉ WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FEBRUARY 29, 2020**

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable consists of the following at February 29, 2020:

Others	\$ 4,429,499
Water user fees	3,044,905
Less allowance for doubtful accounts	<u>(1,774,395)</u>
 Total	 <u>\$ 5,700,009</u>

NOTE 4 – CAPITAL ASSETS

Following is a summary of activity affecting capital assets for the year ended February 29, 2020:

	Balance March 1, 2019	Additions	Deletions	Balance February 29, 2020
Depreciable assets:				
Improvements and equipment	\$ 29,635,281	\$ 79,444	\$ (2,048,878)	\$ 27,665,847
Total depreciable assets	<u>29,635,281</u>	<u>79,444</u>	<u>(2,048,878)</u>	<u>27,665,847</u>
Accumulated depreciation:				
Improvements and equipment	(17,787,635)	(1,205,840)	2,048,878	(16,944,597)
Total accumulated depreciation	<u>(17,787,635)</u>	<u>(1,205,840)</u>	<u>2,048,878</u>	<u>(16,944,597)</u>
 Depreciable assets, net	 <u>11,847,646</u>	 <u>(1,126,396)</u>	 <u>-</u>	 <u>10,721,250</u>
 Total capital assets	 <u>\$ 11,847,646</u>	 <u>\$ (1,126,396)</u>	 <u>\$ -</u>	 <u>\$ 10,721,250</u>

NOTE 5 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Following is a summary of accounts payable and accrued expenses as of February 29, 2020:

Trade payables	\$ 1,627,163
Compensated absences payable	<u>245,143</u>
 Total	 <u>\$ 1,872,306</u>

**PANOCHÉ WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FEBRUARY 29, 2020**

NOTE 6 – LONG-TERM LIABILITIES

Following is a summary of noncurrent (long-term) liabilities for the year ended February 29, 2020:

	<u>Balance</u> <u>March 1, 2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>February 29, 2020</u>
Bonds payable, San Luis & Delta-Mendota Water Authority	2,266,367	-	(50,900)	2,215,467
Total	2,266,367	-	(50,900)	2,215,467
Less current portion	(50,900)	-	(2,678)	(53,578)
Noncurrent portion	<u>\$ 2,215,467</u>	<u>\$ -</u>	<u>\$ (53,578)</u>	<u>\$ 2,161,889</u>

Bonds payable, San Luis & Delta-Mendota Water Authority reflects Panoche Water District's, a Financing Participant, share of bond proceeds used to complete general planning requirements, preliminary engineering and design, and required environmental analysis and documentation leading to implementation of elements of the Bay Delta Conservation Plan. Under the DWR funding agreement, Westlands Water District agreed to pay 100 percent of the principal and interest when due for purposes of funding the Water Authority obligations under such agreement; failure of a Financing Participant to make payment required by this DHCCP Activity Agreement shall not relieve Westland Water District of its obligation to pay 100 percent of the outstanding bonds payable, which mature February 2043. Panoche Water District has made all required scheduled payments year-to-date. The bonds bear interest at a rate of 5 percent per annum, with future payments summarized as follows:

<u>Due During the</u> <u>Years Ending:</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
02/28/21	110,774	53,578	164,352
02/28/22	108,095	56,257	164,352
02/28/23	105,281	58,936	164,217
02/29/24	102,335	61,950	164,285
02/28/25	99,237	64,964	164,201
02/28/26 - 02/28/30	444,048	377,393	821,441
02/28/31 - 02/28/35	339,821	481,201	821,022
02/29/36 - 02/29/40	206,896	613,808	820,704
02/28/41 - 02/29/43	45,458	447,380	492,838
	<u>\$ 1,561,945</u>	<u>\$ 2,215,467</u>	<u>\$ 3,777,412</u>

The District had available for use a \$2,000,000 working capital line of credit with Rabobank, N.A. The line of credit had an interest rate of 3.53 percent per annum and matured on August 31, 2019. The District did not renew a working capital line of credit with Rabobank and did not obtain a line of credit with any other financial institution.

**PANOCHÉ WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FEBRUARY 29, 2020**

NOTE 7 – DEFICIT DEPOSITS: CENTRAL VALLEY PROJECT O&M AND CAPITAL OBLIGATIONS

Federal legislation enacted in 1986 directed Reclamation to determine each water contractor's share of main projects O&M costs (occurring after October 1, 1985) which are not currently reimbursed to Reclamation under existing water contracts. Reclamation was further directed to accumulate these excess costs; including interest (collectively O&M deficits) until such time that the new contracts were renewed. Beginning in fiscal year 2008-2009, under the new interim contract, the District is required to reimburse Reclamation for such O&M deficits through increased costs of its water supply. As of September 30, 2019, according to Reclamation calculations, O&M deficits totaled zero.

In addition, CVP main project capital allocated to the District must be paid in full by the year 2030. This capital is allocated to the federal water contractor on the basis of future projected water deliveries and is included in Reclamation's cost-of-service water rate. As of September 30, 2019, \$12,900,944 in unpaid CVP capital was reflected on Reclamation's accounting records as the District's future capital obligations. This amount has not been accrued as an obligation on the District's financial statements.

NOTE 8 – COMPENSATED ABSENCES

The District has a paid vacation policy which allows employees to accumulate vacation leave. Upon termination, employees are paid their accrued vacation at the rate of pay at separation. The District has a sick leave policy which allows employees to accumulate medical sick leave. Upon termination, the District has no obligation to compensate employees for unused sick leave. Accumulated vacation benefits in the amount of \$110,746, as of February 29, 2020, are included in accounts payable and accrued expense.

NOTE 9 – EMPLOYEE RETIREMENT BENEFITS

The District provides retirement benefits for all of its full-time employees through a defined contribution plan (Panoche Water District Retirement Plan). The plan is administered by the Panoche Water District and uses the Central Administrative Services, Inc. trust approved by the IRS. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. All full-time employees, 21 years or older, are eligible to participate in the plan after six months of full-time service. The District makes an annual discretionary contribution, currently it contributes seven percent of eligible employee's annual compensation. If the employee terminates employment before fully vesting, forfeiture will take place as of the end of the plan year in which the earlier of the following occurs: 1) the employee incurs five consecutive breaks in service, 2) the employee receives a distribution of the entire vested account balance. Any changes to the rates are approved by the Governing Board. Employees may make voluntary pre-tax salary deferral contributions to the plan subject to Internal Revenue Service limits which combine employer and employee contributions. Total District contributions for the year ended February 29, 2020 were \$184,129, with covered payroll equaling \$2,846,234.

NOTE 10 – DEFERRED COMPENSATION

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, which is available to all permanent employees, permits them to defer a portion of their current salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

**PANOCHÉ WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FEBRUARY 29, 2020**

NOTE 11 – PREPAYMENTS/PREBILLINGS ON ACCOUNT

Prepayments/prebillings on account in the amount of \$1,339,016 represent prepayments from customers and water assessments billed in the current fiscal year for water which will be delivered to water users during the next fiscal year ending February 28, 2021.

NOTE 12 – RISK MANAGEMENT

The District is exposed to various risks and loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is self-insured for the first \$2,500 in claims paid for auto and general liability claims. Buildings, personal property and mobile equipment are also self-insured for the first \$2,500 in claims paid.

The District is a member of the Association of California Water Agencies – Joint Powers Insurance Authority for insurance claims above the self-insured limits listed above. The District and Authority members have pooled funds to be self-insured for liability and property coverage. The District accounts for premiums paid as a pooling of risk arrangement and, accordingly, expense premiums as they are paid.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

Commitments

As part of its ongoing operations, the District has entered into several long-term water purchase commitment agreements. Range of terms under individual agreements are as follows: 0-94,000 Acre Feet (AF), and \$99 - \$1,000/AF, cost per AF under each agreement differs based on water source type and price escalators (if applicable); agreements expire based on individual agreement terms ranging from FY 2018 to FY 2034, new agreements may be negotiated upon expiration. The District entered into the latest water service contract with the United States, Contract No. 14-06-200-7864A-IR7, which shall serve as the District's interim renewal contract from March 1, 2021, through and if needed, February 28, 2023

As provided for by federal law, the District has converted its water service contract, which was subject to a two-year renewal cycle, into a repayment contract. The Repayment Contract is for the same 94,000 acre-feet of Central Valley Project water which the water service contracts provided for and has an effective date of July 1, 2021. The Repayment Obligation, as provided for in Exhibit C of the Repayment Contract, provides for either four equal installments of \$2,843,314, or for a single lump sum payment of \$11,172,832. The District intends to pay the lump sum payment by August 29, 2021, as provided for in the Repayment Contract. The District is currently performing the required analyses to potentially levy assessments against lands in the District in accordance with Proposition 218. Funds from these assessments would be used in part to provide a source of repayment for debt the District intends to cause the Panoche Financing Authority (of which the District is a member) to issue bonds to provide funds to make the lump sum payment.

The Water District and the United States entered into a Settlement Agreement on January 15, 2021. The key financial terms of the Settlement Agreement are that the Water District may be liable to the United States for up to \$8,261,361, not including interest (the "Settlement Amount"), for what the United States contends to be the Water District's unauthorized diversion of water from the Delta Mendota Canal and the San Luis Canal between 2009 and 2015. In the Settlement Agreement, the United States specifically contends that between on or about January 1, 2009, and April 20, 2015, the Water District diverted federally owned water from the Delta-Mendota and San Luis Canals, and that the diversions were unauthorized and that the Water District did not compensate the United States Bureau of Reclamation for the diversions. (Collectively, the "Covered Conduct".)

**PANOCHÉ WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FEBRUARY 29, 2020**

NOTE 13 – COMMITMENTS AND CONTINGENCIES (Continued)

Commitments (Continued)

An initial payment of \$1,000,000 was provided to the United States as required by the Settlement Agreement. The Water District intends to pursue financing or other funding sources to enable the Water District to pay the remainder of the Settlement Amount, to include interest accrued up to the date of payment, in one lump sum during calendar year 2021 (the “Lump Sum Payment”). The Settlement Agreement provides that the Water District is entitled to prepay the Settlement Amount including interest accumulated to the payment date (the “Payoff Amount”) early at any time without penalty. The District intends to conduct a Proposition 218 Benefit Assessment proceeding related to the issuance of bonds, in part to provide sufficient revenue for the Payoff Amount. In the event that the Water District does not obtain approval of the Proposition 218 Benefit Assessment by landowners or does not issue Bonds such that the Water District does not pay the Payoff Amount by December 31, 2021, the Water District shall pay the remainder of the Settlement Amount plus interest pursuant to the Payment Schedule set forth in the Settlement Agreement. The payments are due beginning August 31, 2021 and continuing each year thereafter until August 31, 2025. In the event that the Water District does not make the Lump Sum Payment, the Settlement Agreement provides for certain postponed payments if, for the contract year (defined as March 1 of a year to the end of February of the next year) that includes a Payment Due Date, the Water District’s Central Valley Project allocation is less than 30% of its 94,000 acre-feet allocation; provided, that the Water District may only postpone payments twice over the course of paying the amounts due under the Settlement Agreement. In such an event, the first postponed payment shall be due on August 15, 2026, and the second postponed payment shall be due on August 15, 2027.

Subject to certain specific exceptions provided in the Settlement Agreement, and conditioned upon the Water District’s timely payment of the amounts described above, through the Settlement Agreement the United States agreed to release the Water District, together with its current and former direct and indirect parent corporations, current or former direct and indirect subsidiaries or affiliates, current or former brother or sister corporations, divisions, current or former direct and indirect corporate owners, other districts for whom the Water District has performed or does perform services, and the corporate successors and assigns of any of them, from any civil or administrative monetary claim the United States has for the Covered Conduct, arising under the False Claims Act, 31 U.S.C. §§ 3729, et seq.; the Program Fraud Civil Remedies Act, 31 U.S.C. §§ 3801, et seq.; the Injunctions Against Fraud Act, 18 U.S.C. §§ 1345; 18 U.S.C. Section 1956; common law theories of conversion, negligence, gross negligence, payment by mistake, unjust enrichment, money had and received, breach of fiduciary duty, breach of contract, misrepresentation, deceit fraud, civil conspiracy, and aiding and abetting any of the foregoing; or any other statutory or common law cause of action for civil damages or civil penalties that the Civil Division of the United State Department of Justice has actual and present authority to assert and compromise pursuant to 28 C.F.R. Part O, Subpart 1, .45(d) in connection with the Covered Conduct. For purposes of the Settlement Agreement, “affiliates” includes Panoche Drainage District and any other public agency managed by the Water District or whose Board of Directors contains Directors or designated representatives of the Water District, including any joint powers authority established under California law of which the Water District is a member.

The Settlement Agreement contains the requirement that the Water District continue to maintain certain programs, policies and procedures, provide certain training and undergo a limited review annually for the period ending December 31, 2025. In the event the Water District does not comply, it could be subject to an annual payment of \$100,000 for each calendar year in which the non-compliance occurs.

The District is currently performing the required analyses to levy assessments against lands in the Water District in accordance with Proposition 218. Funds from these assessments would be used in part to provide a source of repayment for debt the Water District intends to cause the Panoche Financing Authority (of which the Water District is a member) to issue bonds to provide funds to make the Lump Sum Payment.

**PANOCHÉ WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FEBRUARY 29, 2020**

NOTE 13 – COMMITMENTS AND CONTINGENCIES (Continued)

Contingencies

As indicated above, the District is currently performing the required analyses to potentially levy assessments against lands in the District in accordance with Proposition 218. Funds from these assessments would be used in part to provide a source of repayment for debt the Water District intends to cause the Panoche Financing Authority (of which the Water District is a member) to issue bonds to provide funds to make the lump sum payment for the Settlement Contract (discussed above), and the lump sum payment for the Repayment Contract (also discussed above). The District expects the assessments to provide adequate funding for both, and expects the landowners in the District to approve the assessments.

Based upon the litigation filed by the California Department of Justice against certain former District employees noted below and on February 20, 2018, the United States Environmental Protection Agency in April 2018, issued a Notice of Suspension to Panoche Water District and Drainage Districts suspending the Districts from participation on future federal contracts. The suspension was subsequently reversed and a notice to show cause issued. The District submitted documentation of its present responsibility to act as a federal contractor and provided supplemental information in the fall of 2019. The District's understanding is that USEPA still has not acted in response to that submittal, but the District does not expect any further action by the EPA based upon the issues in that proceeding. The District is currently an authorized federal contractor.

Commencing in approximately May 2016, the Water District was subject to investigation by the California Department of Justice relating to issues regarding handling and disposal of chemicals under the jurisdiction of the Department of Toxic Substance Control. The investigation also potentially relates to whether personnel of the District may have misused District credit cards, issued or received District loans to public employees, or violated requirements under the Fair Political Practices Act. On February 20, 2018, the California Department of Justice filed a felony complaint against the former General Manager, former office manager, two former employees and one employee (since separated from the District), *People v. Cascia*, Fresno County Superior Court Case No. F18901227. Following a preliminary hearing, two former employees were held over for trial on three counts each of embezzlement of public funds, and one was held over on one count of unlawful disposal of hazardous waste. At this point the likelihood that the California Department of Justice would bring any criminal complaint against the District appears to be remote.

Finally, the District could be subject to fines or penalties assessed by the Department of Toxic Substance Control, the State Water Resources Control Board or the County of Fresno relating to matters arising during or after FY 2017 which have been or are being investigated by those agencies and that have been remediated by District actions. The Department of Toxic Substance Control and the State Water Resources Control Board have notified the District of their intent to bill for investigation time, estimated to be in the range of \$200-\$1000. Issues concerning violations of water quality objectives at the domestic water treatment plant are ongoing and it is possible, but not probable that the State Water Resources Control Board would impose fines on the District if current cooperative efforts to identify and fund new technology or a new plant were to fail. At this time, while possible, it does not appear reasonably likely that additional claims or litigation against the District will result.

**PANOCHÉ WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FEBRUARY 29, 2020**

NOTE 14 – LEGAL SETTLEMENT OBLIGATIONS

Following is a summary of noncurrent (long-term) Settlement payable to United States Bureau of Reclamation:

	Balance February 29, 2020
Settlement payable to United States Bureau of Reclamation	\$ 8,261,461
Less current portion	(1,000,000)
Noncurrent portion	\$ 7,261,461

Settlement payable bears interest at the rate of one percent per annum with future payments summarized as follows:

Due During the Years Ending:	Interest	Principal	Total
02/28/21	\$ -	\$ 1,000,000	\$ 1,000,000
02/28/22	40,547	2,091,215	2,131,762
02/28/23	51,702	1,292,562	1,344,264
02/29/24	38,777	1,292,562	1,331,339
02/28/25	25,851	1,292,562	1,318,413
02/28/26	12,927	1,292,560	1,305,487
Total	\$ 169,804	\$ 8,261,461	\$ 8,431,265

NOTE 15 – RELATED ORGANIZATIONS

The District's Governing Board presides as the Panoche Drainage District's (PDD) Governing Board, PDD is a separate Special District organized to provide for the Water of certain agricultural lands, other than swamp and overflow lands located in Fresno and Merced Counties. A separate audit is performed for Panoche Drainage District and financial information of PDD can be obtained by writing to the PDD's Chief Financial Officer, 52027 W. Althea Avenue, Firebaugh, CA 93622.

PDD reimburses the District for the cost of providing PDD with personnel services, including related taxes and benefits, and other operational costs. Amounts charged to PDD for fiscal year ended February 29, 2020 were approximately \$2,117,485 in total.

NOTE 16 – RELATED PARTY TRANSACTIONS

The District has outstanding employee loans receivable totaling \$22,793 as of the fiscal year ended February 29, 2020. During the prior years, management made interest free loans to several employees. The District made these loans without proper authorization documents or agreements documenting the terms of the loans. In correcting this practice, the Board adopted formal, written policy prohibiting loans to any persons, including employees, except as authorized by law in August of 2016 in addition to adopting Reasonable Expense Reimbursement/Use of Public Resources Policy Statement "Reimbursement/Resources Policy") incorporating Loan Policy the following month (September 2016). Employee training on Reimbursement/Resources Policy was conducted by special counsel. In September 2016, Board adopted an Employee Handbook including a no-loan policy, formally acknowledged by all District employees.

**PANOCHÉ WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FEBRUARY 29, 2020**

Note 17 – UNCERTAINTY

On March 11, 2020, the World Health Organization declared the outbreak of coronavirus (COVID-19) a pandemic. In response, the State of California has issued Stay At Home Orders which include the temporary closure of all businesses deemed to be nonessential. Accordingly, some functions of the Panoche Water District's operations have been limited to protect the health and safety of its employees. The financial impact that could occur as a result of the pandemic is unknown at this time.

NOTE 18 – SUBSEQUENT EVENTS

Management has evaluated and concluded that there are no other subsequent events that have occurred from February 29, 2020 through the date the financials were available to be issued at March 10, 2021, that would require disclosure or adjustment.

OTHER AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S 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

To the Board of Directors of
Panoche Water District
Firebaugh, California

We have audited, in accordance with the 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 Panoche Water District (the "District"), as of and for the year ended February 29, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 10, 2021.

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) as a basis for designing 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial 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 that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2020-001 to be a material weakness.

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fax 559.299.2344

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from 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 financial statements. 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 required to be reported under *Government Auditing Standards*.

District's Responses to Findings

The District's response to the findings identified in our audit is described in the accompanying corrective action plan. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 District'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.

Price Pange & Company

Clovis, California
March 10, 2021

FINDINGS AND QUESTIONED COSTS

**PANOCHE WATER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FEBRUARY 29, 2020**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor's report issued	Unmodified		
Internal control over financial reporting: Material weaknesses identified?	<u> X </u>	Yes	<u> </u> No
Significant deficiencies identified that are not considered to be material weaknesses?	<u> </u>	Yes	<u> X </u> None reported
Noncompliance material to financial statement noted?	<u> </u>	Yes	<u> X </u> No

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding 2020-001 **Financial Close and Reporting Process (Material Weakness)**

Condition:

The District incorrectly “reversed” a prior year adjusting entry in the amount of \$264,369 which they believed was an accrual entry but was in fact a correcting entry for revenue and accounts receivable.

Criteria:

A strong system of internal controls and management review requires that general ledger account balances be properly reconciled to a subsidiary ledger or other adequate supporting documentation on a periodic basis, as well as during the year-end financial close process. Management is responsible for maintaining its accounting records in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Cause:

Internal controls over the year-end financial reporting process were not properly designed and were not placed in operation.

Effect:

An overstatement of revenue and an overstatement of accounts receivable in the current year of \$264,369 which was corrected by an audit adjustment.

Recommendation:

We recommend that the District create a year-end financial closing checklist which includes the necessary steps, in detail, that should be undertaken at year-end to ensure proper reconciliation and reporting of all significant account balances.

**PANOCHE WATER DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FEBRUARY 29, 2020**

FINANCIAL STATEMENT FINDINGS

Finding 2019-001 Financial Close and Reporting Process (Material Weakness)

Condition:

The District did not properly record all payables, receivables, expenses and revenues during the year-end closing process. During our audit we identified these errors and proposed the necessary accounting entries to correct the balances of these accounts.

Criteria:

A strong system of internal controls and management review requires that general ledger account balances be properly reconciled to a subsidiary ledger or other adequate supporting documentation on a periodic basis, as well as during the year-end financial close process. Management is responsible for maintaining its accounting records in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Cause:

Internal controls over the year-end financial reporting process were not properly designed and were not placed in operation.

Effect:

As a result of this condition, payables, receivables, expenses, assets, revenues and net position were initially materially misstated. Specifically, the misstatements were as follows:

- T&D Electric expense – Understated by \$82,467
- DMC Well Water expense – Understated by \$96,840
- Payroll related expenses – Understated by \$172,259
- Property, Plant and Equipment – Overstated by \$65,584
- Accounts receivable – Other – Overstated by \$264,398

Recommendation:

We recommend that the District create a year-end financial closing checklist which includes the necessary steps, in detail, that should be undertaken at year-end to ensure proper reconciliation and reporting of all significant account balances.

Status (as of February 29, 2020):

Partially implemented. See Finding 2020-001.

**PANOCHE WATER DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FEBRUARY 29, 2020**

FINANCIAL STATEMENT FINDINGS (Continued)

Finding 2019-002 **Internal Controls Over Payroll (Material Weakness)**

Condition:

The District did not obtain proper authorization for payroll related transactions during the fiscal year. Specifically, we identified the following transaction:

- Unauthorized Employee Fringe Benefits – No written contracts or agreements for housing and utilities payments provided to five employees.

Criteria:

COSO's Internal Control – Integrated Framework defines the five interrelated concepts of internal control which include: Control Environment, Risk Assessment, Information and Communication, Monitoring, and Control Activities. A proper control environment includes the following attributes: communication and enforcement of integrity and ethical values, commitment to competence, proper human resource policies and practices. Effective monitoring requires that the entity select, develop, and perform ongoing and/or separate evaluations to determine whether the components of internal control are present and functioning. Additionally, the monitoring process requires that the entity evaluate and communicate internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the governing body, as appropriate. Adequate control activities over disbursements include various controls over initiating, authorizing, recording, processing, correcting, reconciling and reporting transactions,

Cause:

The District did not have a properly designed or operating internal control system. Specifically, the District did not have adequate written policies and procedures to address payroll/personnel transactions. Monitoring of financial transactions, was weak or non-existent.

Effect:

As a result of the condition described above, several transactions were processed by the District without proper documentation and authorization.

Recommendation:

We recommend that the District create policies and procedures which includes the necessary steps, in detail, that should be undertaken to ensure proper documentation, authorization and reporting of all accounting transactions.

Status (as of February 29, 2020):

Implemented.

**PANOCHE WATER DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FEBRUARY 29, 2020**

FINANCIAL STATEMENT FINDINGS (Continued)

Finding 2019-003 Accounts Receivable Reconciliation (Significant Deficiency)

Condition:

The District did not reconcile receivables recorded in the STORM billing system to the general ledger accounting system (SAGE) on a monthly basis.

Criteria:

A strong system of internal controls and management review requires that general ledger account balances be properly reconciled to a supplemental billing accounting system on a periodic basis, as well as during the year-end financial close process. Management is responsible for maintaining its accounting records in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Cause:

Internal controls over the accounts receivable reconciliation process were not properly designed and were not placed in operation.

Effect:

Not determined.

Recommendation:

We recommend that the District create a monthly financial closing checklist which includes the necessary steps, in detail, that should be undertaken on a monthly basis to ensure proper reconciliation of accounts receivable records.

Status (as of February 29, 2020):

Implemented.

**PANOCHÉ WATER DISTRICT
MANAGEMENT'S RESPONSE TO FINDINGS
FEBRUARY 29, 2020**



PANOCHÉ WATER DISTRICT

52027 WEST ALTHEA AVE, FIREBAUGH, CA 93622
TELEPHONE (209) 364-6136 • FAX (209) 364-6122

CORRECTIVE ACTION PLAN
Fiscal Year End 2020

The Panoche Water District is in receipt of the findings with regards to the annual audit for the fiscal year end 2020. Below is the corrective action plan submitted by the Panoche Water District in response.

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2020-001	This is noted and agreed. Management continues to design, implement and maintain internal control as per the Accounting Policies and Procedures Manual (APPM), which was last reviewed and adopted by the Board in December 2018. The APPM includes monthly and year-end financial closing procedures to help guide proper reconciliation and reporting of account balances. In response to this audit finding and recommendation, Management will further review and refine the APPM procedures to include follow up steps with Auditors for clarification of any audit adjusting entries required to properly correct the financial statements.	Ongoing	John Paul Otollo

Signature: 
General Manager


Controller

Board of Directors: John F. Bennett, *President*
Ross Koda, *Director*

Suzanne Redfern-West, *Vice President*
Michael Linneman, *Director*

Michael Stearns, *Secretary*
Ara Azhderian, *General Manager*

APPENDIX C

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following is a summary of certain provisions of the 2021 Installment Purchase Agreement and the Indenture which are not described elsewhere. This summary does not purport to be comprehensive and reference should be made to the respective agreement for a full and complete statement of the provisions thereof.

DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE 2021 INSTALLMENT PURCHASE AGREEMENT

DEFINITIONS

Definitions. Unless the context otherwise requires, the terms that are defined in the Installment Purchase Agreement will for all purposes thereof and of any amendment thereof or supplement thereto and of any report or other document that is mentioned therein have the meanings that are defined therein, the following definitions to be equally applicable to both the singular and plural forms of any of the terms that are defined therein. All capitalized terms that are used therein and not defined therein have the meanings that are ascribed thereto in the Indenture.

Accountant's Report. The term "Accountant's Report" means a report prepared by an Independent Certified Public Accountant.

Acquisition Fund. The term "Acquisition Fund" means the fund by that name established pursuant to the Installment Purchase Agreement.

Authority. The term "Authority" means Panoche Financing Authority, a joint exercise of powers agency that is duly organized pursuant to the JPA Agreement and existing under and by virtue of the laws of the State of California.

Authorized Representative. The term "Authorized Representative" means, with respect to the District, its President, Vice President, Secretary, General Manager or any other person designated as an Authorized Representative of the District by a Certificate of the District signed by its President, Vice President, Secretary or General Manager and filed with the Trustee.

Bonds. The term "Bonds" means all revenue bonds or notes of the District previously or later authorized, executed, issued and delivered by the District, the payments of which are payable from Net Revenues on a parity with the Series 2021 Installment Payments and which are secured by a pledge of and lien on Revenues as described in the Installment Purchase Agreement.

Bureau. The term "Bureau" means the United States of America, acting through the Department of the Interior, Bureau of Reclamation.

Contracts. The term "Contracts" means all contracts of the District previously or later authorized and executed by the District, the payments under which are payable from Net Revenues on a parity with the Series 2021 Installment Payments and which are secured by a pledge and lien on Revenues as described in the Installment Purchase Agreement.

Contractual Obligation Assessment. The term "Contractual Obligation Assessment" means the special benefit assessment upon all assessed lands within the District in accordance with the resolution adopted

by the Board of Directors of the District on June 8, 2021 after approval by the owners of at least 50% of all eligible lands within the District in accordance with Article XIII D of the State Constitution. Contractual Obligation Assessments will not include (i) any amounts representing lump sum payments of the special benefit assessments made by land owners which are payable to the Bureau for purposes of repaying the District's existing capital obligation with respect to the Water Contract, (ii) any portion of the special benefit assessment assessed to pay ongoing compliance costs related to the Water Contract or (iii) any portion of the special benefit assessment assessed for purposes of financing the cost of capital modernization projects of the District.

Contractual Obligation Assessment Fund. The term "Contractual Obligation Assessment Fund" means the District accounts into which Contractual Obligation Assessments are deposited, together with other general ledger codes currently in existence into which Proposition 218 Special Benefits Assessments are deposited or created in the future by the Board of Directors into which Proposition 218 Special Benefits Assessments will be deposited as a part of the Contractual Obligation Assessment Fund contained pursuant to the Installment Purchase Agreement.

Date of Operation. The term "Date of Operation" means, with respect to any uncompleted Parity Project, the estimated date by which such Parity Project will have been completed and, in the opinion of an engineer, will be ready for operation by or on behalf of the District.

Debt Service. The term "Debt Service" means, for any period of calculation, the sum of: (1) the interest required to be paid during such period on all outstanding Bonds, assuming that all outstanding serial Bonds are retired as scheduled and that all outstanding term Bonds are prepaid or paid from sinking fund payments as scheduled (except to the extent that such interest is capitalized); (2) those portions of the principal amount of all outstanding serial Bonds maturing in such period; (3) those portions of the principal amount of all outstanding term Bonds required to be prepaid or paid in such period; and (4) those portions of the Contracts required to be made during such period, (except to the extent the interest evidenced and represented thereby is capitalized); but less the earnings to be derived from the investment of moneys on deposit in debt service reserve funds established for Bonds or Contracts; provided that, as to any such Bonds or Contracts bearing or comprising interest at other than a fixed rate, the rate of interest used to calculate Debt Service will, for all purposes, be assumed to bear interest at a fixed rate equal to the higher of: (i) the then current variable interest rate borne by such Bonds or Contracts plus 1%, and (ii) if such Bonds or Contracts have been outstanding for at least twelve months, the average rate over the twelve months immediately preceding the date of calculation, or if such Bonds or Contracts have not been outstanding for the twelve prior months, the average rate borne by reference to an index comparable to that to be utilized in determining the interest rate for the Bonds to be issued or the Contracts to be executed; provided further that if any series or issue of such Bonds or Contracts have twenty-five percent (25%) or more of the aggregate principal amount of such series or issue due in any one year, Debt Service will be determined for the period of determination as if the principal of and interest on such series or issue of such Bonds or Contracts were being paid from the date of incurrence thereof in substantially equal annual amounts over a period of twenty-five (25) years from the date of calculation; and provided further that, as to any such Bonds or Contracts or portions thereof bearing no interest but which are sold at a discount and which discount accretes with respect to such Bonds or Contracts or portions thereof, such accreted discount will be treated as interest in the calculation of Debt Service; and provided further that if the Bonds or Contracts constitute paired obligations, the interest rate on such Bonds or Contracts will be the resulting linked rate or the effective fixed interest rate to be paid by the District with respect to such paired obligations; and provided further that the amount on deposit in a debt service reserve fund on any date of calculation of Debt Service will be deducted from the amount of principal due at the final maturity of the Bonds and Contracts for which such debt service reserve fund was established and to the extent the amount in such debt service reserve fund is in excess of such amount of principal, such excess will be applied to the full amount of principal due, in each preceding year, in descending order, until such amount is exhausted.

District. The term “District” means Panoche Water District, a California water district that is duly organized and existing under and by virtue of the laws of the State of California.

Event of Default. The term “Event of Default” means any events specified in the Installment Purchase Agreement.

Fiscal Year. The term “Fiscal Year” means the twelve month period beginning on March 1 of each year and ending on the last day of February of the following year, both dates inclusive, or any other twelve-month period later selected and designated as the official fiscal year of the District.

General Manager. The term “General Manager” means the General Manager of the District, or any other person designated by the General Manager to act on behalf of the General Manager.

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

Indenture. The term “Indenture” means the Indenture of Trust, dated as of the date of the Installment Purchase Agreement, by and between the Trustee and the Authority, relating to the 2021 Bonds.

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

Independent Municipal Consultant. The term “Independent Municipal Consultant” means a municipal advisor or firm of such municipal advisors appointed by the District, and who, or each of whom: (1) is in fact independent and not under domination of the District; (2) does not have any substantial interest, direct or indirect, with the District; (3) is not connected with the District as an officer or employee thereof, but who may be regularly retained to make reports thereto; and (4) is registered as a “municipal advisor,” as defined in Section 15B of the Securities Exchange Act of 1934, as amended.

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

Installment Payments. The term “Installment Payments” means the Installment Payments of interest and principal scheduled to be paid by the District under and pursuant to the Contracts.

Installment Purchase Agreement. The term “Installment Purchase Agreement” means the Installment Purchase Agreement, by and between the District and the Authority, dated as of May 1, 2021, as originally executed and as it may from time to time be amended or supplemented in accordance therewith.

JPA Agreement. The term “JPA Agreement” means the Joint Exercise of Powers Agreement, dated October 13, 2020, by and between the District and the Panoche Drainage District, pursuant to which the Authority is established, as such JPA Agreement may be amended and supplemented from time-to-time on accordance therewith.

Law. The term “Law” means the California Water District Law of the State of California (being Division 13 of the Water Code of the State of California, as amended) and all laws amendatory thereof or supplemental thereto, including but not limited to Part 6.5 thereof, and Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California.

Moody's. The term “Moody’s” means Moody’s Investors Service, Inc., or any successor thereto.

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

Net Revenues. The term “Net Revenues” means, for any Fiscal Year, the Revenues for such Fiscal Year less the Operation and Maintenance Costs for such Fiscal Year.

Operation and Maintenance Costs. The term “Operation and Maintenance Costs” means (i) costs spent or incurred for maintenance and operation of the Water System in a Fiscal Year calculated in accordance with Generally Accepted Accounting Principles, including (among other things) the reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Water System in good repair and working order, and including administrative costs of the District that are charged directly or apportioned to the Water System, including but not limited to salaries and wages of employees, payments to the Public Employees Retirement System, if any, contributions to defined contribution retirement plans, overhead, insurance, taxes (if any), fees of auditors, accountants, attorneys, consultants or engineers and insurance premiums, and including all other reasonable and necessary costs of the District or charges (other than Debt Service) required to be paid by it to comply with the terms of this Agreement or any other Contract or of any resolution or indenture authorizing the issuance of any Bonds or of such Bonds, (ii) all costs of all water purchased, stored, banked, exchanged or otherwise acquired for delivery by the Water System (including any interim or renewed arrangement therefor), but excluding in all cases depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles or other bookkeeping entries of a similar nature, including but not limited to restatements made in subsequent periods which would not have affected the District’s statements of revenues, expenses and changes in net position, prior period adjustments and any amounts transferred to the 2021 Stabilization Fund from Revenues.

Parity Project. The term “Parity Project” means additions, betterments, extensions or improvements to the District’s Water System designated by the Board of Directors of the District as a Parity Project, the acquisition and construction of which is to be paid for by the proceeds of any Contracts or Bonds.

Purchase Price. The term “Purchase Price” means the principal amount plus interest thereon owed by the District to the Authority under the terms of the Installment Purchase Agreement.

Refunding Obligations. The term “Refunding Obligations” means any note, bond, contract or other obligation issued or incurred by the District the proceeds of which are to be applied to the refunding of all or a portion of the Series 2021 Installment Payments pursuant to the Installment Purchase Agreement, and the payments of which are payable from Contractual Obligation Assessment proceeds on a parity with the Series 2021 Installment Payments and which are secured by a pledge of and lien on Contractual Obligation Assessment proceeds as described in the Installment Purchase Agreement.

Revenue Fund. The term “Revenue Fund” means the District accounts into which Revenues are deposited, together with other accounts currently in existence into which Revenues are deposited or created in the future by the Board of Directors into which Revenues will be deposited as a part of the Revenue Fund contained pursuant to the Installment Purchase Agreement.

Revenues. The term “Revenues” means all income, rents, rates, fees, charges and other moneys derived from the ownership or operation of the Water System in a Fiscal Year, determined in accordance with Generally Accepted Accounting Principles, including, without limiting the generality of the foregoing, (1) all income, rents, rates, fees, charges, business interruption insurance proceeds or other moneys derived by the District from the sale, furnishing and supplying of water or other services, facilities, and commodities sold, furnished or supplied through the facilities of or in the conduct or operation of the business of the Water System, plus (2) the proceeds of any stand-by or water availability charges, plus (3) all amounts, if and to the

extent received by the District, of the ad valorem assessment tax authorized to be levied by the District upon the land value of property within the District, plus (4) any Revenues remaining after the payment of all other District obligations in the immediately prior Fiscal Year credited to landowners, lessees and water users in the current Fiscal Year, to the extent that such landowner, lessee or water user elects to have such credit applied to the current Fiscal Year's water bill, plus (5) the earnings on and income derived from the investment of the amounts described in clauses (1), (2), (3) and (4) hereof and from amounts in the 2021 Stabilization Fund, plus (6) any excess Contractual Obligation Assessments transferred to the Revenue Fund in accordance with the Installment Purchase Agreement, but excluding in all cases (i) customer deposits or any other deposits or advances subject to refund until such deposits or advances have become the property of the District, (ii) any proceeds of taxes restricted by law to be used by the District to pay obligations of the District other than Bonds or Contracts, including, but not limited to, any portion of the special benefit assessment assessed for purposes of financing the cost of capital modernization projects of the District, and (iii) the Contractual Obligation Assessments, except as provided in clause (6) above, the Contractual Obligation Assessment Fund, and the amounts on deposit therein. "Revenues" also include all amounts transferred from the 2021 Stabilization Fund to the Revenue Fund during any Fiscal Year in accordance with the Installment Purchase Agreement to pay Operation and Maintenance Costs or Debt Service and will not include any amounts transferred from the Revenue Fund to the 2021 Stabilization Fund during any Fiscal Year in accordance with the Installment Purchase Agreement.

Series 2021 Installment Payment Date. The term "Series 2021 Installment Payment Date" means the last day of each February and the last day of each August, commencing on February 28, 2022.

Series 2021 Installment Payments. The term "Series 2021 Installment Payments" means the Installment Payments scheduled to be paid by the District under and pursuant to the Installment Purchase Agreement.

Treasurer. The term "Treasurer" means the Treasurer and Controller of the District or the successor thereto.

Trustee. The term "Trustee" means U.S. Bank National Association, acting in its capacity as Trustee under and pursuant to the Indenture, and its successors and assigns.

Water Contract. The term "Water Contract" means the water contract with the Bureau authorized by Section 9(d) of the Reclamation Project Act of 1939 (43 U.S.C. § 485, *et seq.*), as listed in the Installment Purchase Agreement, and any renewal, replacement, amendment or supplement thereof from time-to-time in accordance with its terms.

Water Service. The term "Water Service" means the water distribution and drainage service that is made available or provided by the Water System.

Water System. The term "Water System" means the whole and each and every part of the water system of the District, including the portion thereof existing on the date of execution of the Installment Purchase Agreement, and including all additions, betterments, extensions and improvements to such water system or any part thereof later acquired or constructed.

2021 Project. The term "2021 Project" means (i) the contract for the perpetual contractual right to purchase water described in the Installment Purchase Agreement, including any payments to the United States of America or any other public agencies in connection therewith, and/or (ii) the additions, betterments, extensions and improvements to the District's Water System facilities, including real property and buildings, if any, which are described as such in the Installment Purchase Agreement, to the extent: (a) approved pursuant to the California Environmental Quality Act; and (b) paid for with the proceeds of the 2021 Bonds, and as modified in conformance with the Installment Purchase Agreement.

2021 Stabilization Fund. The term “2021 Stabilization Fund” means the District account identified by the District, together with accounts created in the future and designated by the Board of Directors as a part of the 2021 Stabilization Fund created pursuant to the Installment Purchase Agreement.

REPRESENTATIONS AND WARRANTIES

Representations by the District. The District makes the following representations:

(a) The District is a California water district that is duly organized and existing under and pursuant to the laws of the State of California.

(b) The District has full legal right, power and authority to enter into the Installment Purchase Agreement, carry out its obligations thereunder and carry out and consummate all other transactions that are contemplated by the Installment Purchase Agreement, and the District has complied with the provisions of the Law in all matters relating to such transactions.

(c) By proper action, the District has duly authorized the execution, delivery and due performance of the Installment Purchase Agreement.

(d) The District will not take or, to the extent within its power, permit any action to be taken which results in the interest that is paid for the installment purchase of the 2021 Project financed from the proceeds of the 2021A Bonds under the terms of the Installment Purchase Agreement being included in the gross income of the Authority or its assigns for purposes of federal or State of California personal income taxation.

(e) The District has determined that it is necessary and proper for District uses and purposes within the terms of the Law that the District acquire the 2021 Project and refinance its capital repayment obligation and any other payments to the United States of America or any other public agencies in connection therewith in the manner that is provided for in the Installment Purchase Agreement in order to provide essential services and facilities to persons residing in the District.

Representations and Warranties by the Authority. The Authority makes the following representations and warranties:

(a) The Authority is a joint exercise of powers agency that was created pursuant to the JPA Agreement and is in good standing under the laws of the State of California, has full legal right, power and authority to enter into the Installment Purchase Agreement and to carry out and consummate all transactions that are contemplated by the Installment Purchase Agreement and by proper action has duly authorized the execution and delivery and due performance of the Installment Purchase Agreement.

(b) The execution and delivery of the Installment Purchase Agreement and the consummation of the transactions therein contemplated will not violate any provision of law, any order of any court or other agency of government, or any indenture, material agreement or other instrument to which the Authority is now a party or by which it or any of its properties or assets is bound, or be in conflict with, result in a breach of or constitute a default (with due notice or the passage of time or both) under any such indenture, agreement or other instrument, or result in the creation or imposition of any prohibited lien, charge or encumbrance of any nature whatsoever upon any of the properties or assets of the Authority.

(c) The Authority will not take or permit any action to be taken which results in interest that is paid for the installment purchase of the 2021 Project under the terms of the Installment Purchase Agreement being included in the gross income of the Authority or its assigns for purposes of federal or State of California personal income taxation.

THE 2021 PROJECT

Acquisition of the 2021 Project. The Authority has agreed to cause the 2021 Project to be acquired by the District as its agent from the proceeds of the 2021 Bonds. The District has agreed that it will cause the acquisition of the 2021 Project to be diligently performed after the deposit of funds into the Acquisition Fund pursuant to the Installment Purchase Agreement, subject to compliance with the California Environmental Quality Act, if required, and approval by the Board of Directors of the District, and that it will use its best efforts to cause the acquisition of the 2021 Project to be substantially completed by January 1, 2024, unforeseeable delays beyond the reasonable control of the District only excepted. It is expressly understood and agreed that the Authority is under no liability of any kind or character whatsoever for the payment of any cost of the 2021 Project and that all such costs and expenses will be paid by the District.

Changes to the 2021 Project. The District may substitute other components for those listed as components of the 2021 Project in the Installment Purchase Agreement, but only if the District first files with the Authority and the Trustee a statement of the District in the form attached to the Installment Purchase Agreement: (a) identifying the components to be substituted and the improvements to District facilities they replace in the 2021 Project; and (b) stating that the estimated costs of construction, acquisition or installation of the substituted components are not less than such costs for the components previously planned.

Purchase of 2021 Project. In consideration for the Series 2021 Installment Payments, the Authority agrees to sell, and has sold, to the District, and the District agrees to purchase, and has purchased, from the Authority, the 2021 Project at the purchase price that is specified in the Installment Purchase Agreement and otherwise in the manner and in accordance with the provisions of the Installment Purchase Agreement.

Title. All right, title and interest in the 2021 Project vests in the District immediately upon acquisition thereof. Such vesting will occur without further action by the Authority or the District, and the Authority will, if requested by the District or if necessary to assure such automatic vesting, deliver any and all documents which are required to assure such vesting.

Acquisition Fund. The District will establish, maintain and hold in trust a separate fund designated as the "Acquisition Fund." The moneys in the Acquisition Fund will be held by the District in trust and applied by the Treasurer of the District to the payment of the costs of acquisition of the 2021 Project and of expenses incidental thereto.

Before any payment is made from the Acquisition Fund by the Treasurer, the General Manager of the District, acting as agent of the Authority, will cause to be filed with the Treasurer a certificate of the District in the form set forth in the Installment Purchase Agreement.

Upon receipt of each such certificate, the Treasurer will pay the amount that is set forth in such certificate as directed by the terms thereof or disburse funds to the District for such payment as directed by the District in such certificate. The Treasurer need not make any such payment if it has received notice of any lien, right to lien, attachment upon or claim affecting the right to receive payment of any of the moneys to be so paid, which has not been released or will not be released simultaneously with such payment.

When the 2021 Project has been acquired in accordance with the Installment Purchase Agreement, a statement of the District stating the fact and date of such acquisition and stating that all of such costs of acquisition and incidental expenses have been determined and paid (or that all of such costs and expenses have been paid less specified claims which are subject to dispute and for which a retention in the Acquisition Fund is to be maintained in the full amount of such claims until such dispute is resolved), will be delivered to the Treasurer by the General Manager of the District. Upon the receipt of such statement, the Treasurer will transfer any remaining balance in the Acquisition Fund which is not needed for Acquisition Fund purposes (but less the amount of any such retention, which amount will be certified to the Treasurer by the General

Manager of the District) to the Trustee for deposit in the Bond Payment Fund for payment of 2021 Bonds in accordance with the Indenture.

SERIES 2021 INSTALLMENT PAYMENTS

Purchase Price.

(a) The Purchase Price to be paid by the District under the Installment Purchase Agreement to the Authority is the sum of the principal amount of the District's obligations thereunder plus the interest to accrue on the unpaid balance of such principal amount from the effective date thereof over the term of the Installment Purchase Agreement, subject to prepayment as provided therein.

(b) The principal amount of the payments to be made by the District is set forth in the Installment Purchase Agreement.

(c) The interest to accrue on the unpaid balance of such principal amount is as specified in the Installment Purchase Agreement, and will be paid by the District as and constitute interest paid on the principal amount of the District's obligations thereunder.

Series 2021 Installment Payments. The District will, subject to its rights of prepayment provided in the Installment Purchase Agreement, pay the Authority the Purchase Price in installment payments of interest and principal in the amounts and on the Series 2021 Installment Payment Dates as set forth in the Installment Purchase Agreement.

Each Series 2021 Installment Payment will be paid to the Authority in lawful money of the United States of America. In the event that the District fails to make any of the payments which are required to be made by it under the Installment Purchase Agreement, such payment will continue as an obligation of the District until such amount is fully paid, and the District agrees to pay the same with interest accruing thereon at the rate or rates of interest then applicable to the remaining unpaid principal balance of the Series 2021 Installment Payments if paid in accordance with their terms.

SECURITY

Allocation of Contractual Obligation Assessment Proceeds. Moneys in the Contractual Obligation Assessment Fund will be applied by the District at the following times in the following order of priority, and all moneys in each of such funds will be held in trust and will be applied, used and withdrawn only for the purposes authorized in the Installment Payment Agreement:

(a) Bond Payment Fund. On or before each Series 2021 Installment Payment Date, the District will, from moneys in the Contractual Obligation Assessment Fund, transfer to the Trustee for deposit in the Bond Payment Fund an amount that is equal to the interest and principal payable and coming due on the next succeeding Series 2021 Installment Payment Date. The District will also, from the moneys in the Contractual Obligation Assessment Fund, transfer to the applicable trustee for deposit in the applicable payment fund, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, any other Debt Service with respect to any Refunding Obligations in accordance with the provisions of the contract, bond, resolution or indenture relating to such Refunding Obligations.

Any moneys which are on deposit in the Bond Payment Fund on each Series 2021 Installment Payment Date (other than amounts required for the payment of past due principal or interest with respect to any 2021 Bonds not presented for payment) will be credited to the payment of the Series 2021 Installment Payments due and payable on such date. No deposit need be made in the Bond Payment Fund as Series 2021 Installment Payments if the amount in the Bond Payment Fund is at least equal to the amount of the Series

2021 Installment Payment that is due and payable on the next succeeding Series 2021 Installment Payment Date.

(b) Surplus. If (i) the 2021 Installment Payment coming due on the last day of February of a Fiscal Year has been paid and (ii) amounts on deposit in the Contractual Obligation Assessment Fund are sufficient to make the 2021 Installment Payment coming due on the last day of August and to pay Debt Service with respect to any Refunding Obligations coming due in the following Fiscal Year, then on or after the last day of the Fiscal Year, moneys on deposit in the Contractual Obligation Assessment Fund which are in excess of the amounts necessary to make the payments identified in (ii) of this paragraph may be applied by District to any lawful District purpose, including providing refunds to landowners who paid the Contractual Obligation Assessments in such Fiscal Year; provided that such refunds will not be provided in the form of a credit against the Contractual Obligation Assessments to be paid by such landowners in any following Fiscal Year.

Allocation of Revenues. In order to carry out and effectuate the pledge and lien contained in the Installment Purchase Agreement, the District agrees and covenants that all Revenues will be received by the District in trust thereunder and will be deposited when and as received in a special fund designated as the "Revenue Fund," which fund has been established and which fund the District agrees and covenants to maintain and to hold separate and apart from other funds so long as the Series 2021 Installment Payments remain unpaid. Moneys in the Revenue Fund will be used and applied by the District as provided in the Installment Purchase Agreement.

(a) Operation and Maintenance Costs. The District will, from the moneys in the Revenue Fund (other than proceeds of the Contractual Obligation Benefit Assessment), pay all Operation and Maintenance Costs (including amounts which are reasonably required to be set aside in contingency reserves for Operation and Maintenance Costs, the payment of which is not then immediately required) as they become due and payable.

(b) Bond Payment Fund. On or before each Series 2021 Installment Payment Date, the District will, from remaining moneys in the Revenue Fund (not including proceeds of the Contractual Obligation Assessment), transfer to the Trustee for deposit in the Bond Payment Fund an amount that is equal to the interest and principal payable and coming due on the next succeeding Series 2021 Installment Payment Date and not satisfied by the transfer of the amounts in the Contractual Obligation Assessment Fund pursuant to the Installment Purchase Agreement. The District will also, from the moneys in the Revenue Fund, transfer to the applicable trustee for deposit in the applicable payment fund, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, any other Debt Service in accordance with the provisions of the Contract, Bond, resolution or indenture relating thereto.

Any moneys which are on deposit in the Bond Payment Fund on each Series 2021 Installment Payment Date (other than amounts required for the payment of past due principal or interest with respect to any 2021 Bonds not presented for payment) will be credited to the payment of the Series 2021 Installment Payments due and payable on such date. No deposit need be made in the Bond Payment Fund as Series 2021 Installment Payments if the amount in the Bond Payment Fund is at least equal to the amount of the Series 2021 Installment Payment that is due and payable on the next succeeding Series 2021 Installment Payment Date.

(c) Reserve Funds. On or before each Series 2021 Installment Payment Date, the District will, from remaining moneys in the Revenue Fund (not including proceeds of the Contractual Obligation Assessment), thereafter, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, transfer to the applicable trustee for such other reserve funds and/or accounts, if any, as may have been established in connection with Bonds or Contracts other than the Installment Purchase Agreement, that sum, if any, necessary to restore such reserve funds and/or accounts to an amount equal to the respective reserve requirements.

(d) Surplus. Moneys on deposit in the Revenue Fund (not including proceeds of the Contractual Obligation Assessment) which are not necessary to make any of the payments which are required above may be expended by the District at any time for any purpose permitted by law.

Additional Obligations – Contractual Obligation Assessments. The District may not issue or incur any note, bond, contract or other obligation secured by a pledge or payable from the Contractual Obligation Assessment proceeds senior to the Series 2021 Installment Payments and may only issue or incur a note, bond, contract or other obligation secured by a pledge or payable from the Contractual Obligation Assessment on a parity with the Series 2021 Installment Payments such notes, bonds, contracts or other obligations are Refunding Obligations.

Investments. All moneys which are held by the District in the Revenue Fund, the Contractual Obligation Assessment Fund and the Acquisition Fund will be invested in Permitted Investments, and the investment earnings thereon will remain on deposit in such fund, except as otherwise provided in the Installment Purchase Agreement.

COVENANTS OF THE DISTRICT

Compliance with Installment Purchase Agreement and Ancillary Agreements. The District will punctually pay the Series 2021 Installment Payments in strict conformity with the terms of the Installment Purchase Agreement, and will faithfully observe and perform all of the agreements, conditions, covenants and terms contained therein which are required to be observed and performed by it, and will not terminate the Installment Purchase Agreement for any cause including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure of consideration, destruction of or damage to the Water System, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State of California or any political subdivision of either or any failure of the Authority to observe or perform any agreement, condition, covenant or term which is contained therein and required to be observed and performed by it, whether express or implied, or any duty, liability or obligation arising out of or connected therewith or the insolvency, or deemed insolvency, or bankruptcy or liquidation of the Authority or any force majeure, including acts of God, tempest, storm, earthquake, war, rebellion, riot, civil disorder, acts of public enemies, blockade or embargo, strikes, industrial disputes, lock outs, lack of transportation facilities, fire, explosion or acts or regulations of governmental authorities.

The District will faithfully observe and perform all of the agreements, conditions, covenants and terms which are required to be observed and performed by it pursuant to all outstanding Contracts and Bonds as such may from time to time be executed or issued, as the case may be.

Against Encumbrances. The District will not make any pledge of or place any lien on Revenues or the moneys in the Revenue Fund except as provided in the Installment Purchase Agreement. In addition, the District may at any time, or from time to time, issue evidences of indebtedness or incur other obligations for any lawful purpose which are payable from and secured by a pledge of and lien on Revenues or any moneys in the Revenue Fund (other than proceeds of the Contractual Obligation Assessment) as may from time to time be deposited therein (as provided in the Installment Purchase Agreement), provided that such pledge and lien is subordinate in all respects to the pledge of and lien thereon provided in the Installment Purchase Agreement.

Against Sale or Other Disposition of Property. The District will not enter into any agreement or lease which materially impairs the operation of the Water System or any part thereof which is necessary to secure adequate Revenues for the payment of the Series 2021 Installment Payments, or which would otherwise materially impair the rights of the Authority under the Installment Purchase Agreement or the operation of the Water System. Any real or personal property which has become nonoperative or which is not needed for the efficient and proper operation of the Water System, or any material or equipment which has become worn out, may be sold if such sale will not materially impair the ability of the District to pay the Series 2021 Installment Payments and if the proceeds of such sale are deposited in the Revenue Fund.

Nothing in the Installment Purchase Agreement restricts the ability of the District to sell any portion of the Water System if such portion is immediately repurchased by the District and if such arrangement cannot by its terms result in the purchaser of such portion of the Water System exercising any remedy which would deprive the District of or otherwise interfere with its right to own and operate such portion of the Water System.

Against Competitive Facilities. The District will not, to the extent permitted by law, acquire, construct, maintain or operate and will not, to the extent permitted by law and within the scope of its powers, permit any other public or private agency, corporation, district or political subdivision or any person whomsoever to acquire, construct, maintain or operate within the District any water system competitive with the Water System.

Tax Covenants. Notwithstanding any other provision of the Installment Purchase Agreement, absent an opinion of Bond Counsel that the exclusion from gross income of the interest on the 2021A Bonds will not be adversely affected for federal income tax purposes, the District covenants to comply with all applicable requirements of the Code which are necessary to preserve such exclusion from gross income with respect to the 2021A Bonds and specifically covenants, without limiting the generality of the foregoing, as follows:

(a) Private Activity. The District will take no action or refrain from taking any action, and the District will make no use of the proceeds of the 2021A Bonds or of any other moneys or property, which would cause the 2021A Bonds to be “private activity bonds” within the meaning of Section 141 of the Code;

(b) Arbitrage. The District will make no use of the proceeds of the 2021A Bonds or of any other amounts or property, regardless of the source, and the District will not take any action or refrain from taking any action, which will cause the 2021A Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Code;

(c) Federal Guarantee. The District will make no use of the proceeds of the 2021A Bonds, and the District will not take or omit to take any action, that would cause the 2021A Bonds to be “federally guaranteed” within the meaning of Section 149(b) of the Code;

(d) Information Reporting. The District will take or cause to be taken all necessary action to comply with the informational reporting requirement of Section 149(e) of the Code which is necessary to preserve the exclusion of interest on the 2021A Bonds pursuant to Section 103(a) of the Code;

(e) Hedge Bonds. The District will make no use of the proceeds of the 2021A Bonds or any other amounts or property, regardless of the source, and the District will not take any action or refrain from taking any action, that would cause the 2021A Bonds to be considered “hedge bonds” within the meaning of Section 149(g) of the Code unless the District takes all necessary action to assure compliance with the requirements of Section 149(g) of the Code to maintain the exclusion from gross income of interest on the 2021A Bonds for federal income tax purposes; and

(f) Miscellaneous. The District will not take any action or refrain from taking any action which is inconsistent with its expectations stated in the Tax Certificate executed by the District in connection with the issuance of the 2021A Bonds and will comply with the covenants and requirements that are stated therein and incorporated by reference in the Installment Purchase Agreement.

The Installment Purchase Agreement and the covenants that are set forth therein are not applicable to, and nothing that is contained therein will be deemed to prevent the District from causing the Authority to issue revenue bonds or issuing bonds or executing and delivering contracts that are payable on a parity with the 2021A Bonds, the interest with respect to which has been determined to be subject to federal income taxation.

Prompt Acquisition. The District will take all necessary and appropriate steps to acquire the 2021 Project, as agent of the Authority, with all practicable dispatch and in an expeditious manner and in conformity with law so as to complete the same as soon as possible.

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

Payment of Claims. The District will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien on the Revenues or the funds or accounts created under the Installment Purchase Agreement or under the Indenture or on any funds in the hands of the District pledged to pay the Series 2021 Installment Payments or the Bonds, or which might impair the security of the Series 2021 Installment Payments.

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

Insurance.

(a) The District will procure and maintain or cause to be procured and maintained insurance on the Water System, excluding coverage for earthquake damage or destruction, with responsible insurers in such amounts and against such risks (including accident to or destruction of the Water System) as are usually covered in connection with facilities that are similar to the Water System so long as such insurance is available at reasonable rates.

In the event of any damage to or destruction of the Water System caused by the perils covered by such insurance, the Net Proceeds thereof will be applied to the reconstruction, repair or replacement of the damaged or destroyed portion of the Water System. The District will begin such reconstruction, repair or replacement promptly after such damage or destruction occurs, and will continue and properly complete such reconstruction, repair or replacement as expeditiously as possible, and will pay out of such Net Proceeds all costs and expenses in connection with such reconstruction, repair or replacement so that the same will be completed and the Water System will be free and clear of all claims and liens.

If such Net Proceeds exceed the costs of such reconstruction, repair or replacement, then the excess Net Proceeds will be applied in part to the prepayment of Series 2021 Installment Payments as provided in the Installment Purchase Agreement and in part to such other fund or account as may be appropriate and used for the retirement of Bonds and Contracts in the same proportion which the aggregate unpaid principal balance of Series 2021 Installment Payments then bears to the aggregate unpaid principal amount of such Bonds and Contracts. If such Net Proceeds are sufficient to enable the District to retire the entire obligation that is evidenced by the Installment Purchase Agreement prior to the final due date of the Series 2021 Installment Payments as well as the entire obligations that are evidenced by Bonds and Contracts then remaining unpaid prior to their final respective due dates, the District may elect not to reconstruct, repair or replace the damaged or destroyed portion of the Water System, and thereupon such Net Proceeds will be applied to the prepayment of Series 2021 Installment Payments as provided in in the Installment Purchase Agreement and to the retirement of such Bonds and Contracts.

(b) The District will procure and maintain such other insurance which it deems advisable or necessary to protect its interests and the interests of the Authority, which insurance will afford protection in such amounts and against such risks as are usually covered in connection with municipal water systems similar to the Water System.

(c) Any insurance that is required to be maintained by paragraph (a) above and, if the District determines to procure and maintain insurance pursuant to paragraph (b) above, such insurance, may be maintained under a self-insurance program so long as such self-insurance is maintained in the amounts and manner usually maintained in connection with water systems similar to the Water System and is, in the opinion of an accredited actuary, actuarially sound.

All policies of insurance which are required to be maintained in the Installment Purchase Agreement will provide that the Authority or its assignee be given thirty (30) days' written notice of any intended cancellation thereof or reduction of coverage provided thereby.

Accounting Records; Financial Statements and Other Reports.

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

(b) The District will prepare and file with the Authority or its assignee, annually within two hundred seventy (270) days after the close of each Fiscal Year (commencing with the Fiscal Year ending February 28, 2021) financial statements of the District for the preceding Fiscal Year prepared in accordance with generally accepted accounting principles, together with an Accountant's Report thereon. The Trustee will have no obligation to review any such financial statements.

Protection of Security and Rights of the Authority. The District will preserve and protect the security of the Installment Purchase Agreement and the rights of the Authority to the Series 2021 Installment Payments under the Installment Purchase Agreement and will warrant and defend such rights against all claims and demands of all persons.

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

Collection of Rates and Charges. The District will have in effect at all times by-laws, rules and regulations requiring each customer to pay the rates and charges applicable to the Water Service to such customer's land and providing for the billing thereof and for a due date and a delinquency date for each bill. In each case where such bill remains unpaid in whole or in part after it becomes delinquent, the District may discontinue such service from the Water System, and such service will not thereafter be recommenced except in accordance with District by-laws or rules, regulations and State Law governing such situations of delinquency.

Eminent Domain Proceeds. If all or any part of the Water System is taken by eminent domain proceedings, the Net Proceeds thereof will be applied as follows:

(a) If: (1) the District files with the Authority and the Trustee a certificate showing: (i) the estimated loss of annual Net Revenues, if any, suffered or to be suffered by the District by reason of such eminent domain proceedings; (ii) a general description of the additions, betterments, extensions or improvements to the Water System that are proposed to be acquired and constructed by the District from such Net Proceeds, and (iii) an estimate of the additional annual Net Revenues to be derived from such additions, betterments, extensions or improvements, and (2) the District, on the basis of such certificate filed with the

Authority and the Trustee, determines that the estimated additional annual Net Revenues will sufficiently offset the estimated loss of annual Net Revenues resulting from such eminent domain proceedings so that the ability of the District to meet its obligations under the Installment Purchase Agreement will not be substantially impaired (which determination will be final and conclusive), then the District will promptly proceed with the acquisition and construction of such additions, betterments, extensions or improvements substantially in accordance with such certificate and such Net Proceeds will be applied for the payment of the costs of such acquisition and construction, and any balance of such Net Proceeds not required by the District for such purpose will be deposited in the Revenue Fund.

(b) If the foregoing conditions are not met, then such Net Proceeds will be applied in part to the prepayment of Series 2021 Installment Payments as provided in the Installment Purchase Agreement and in part to such other fund or account as may be appropriate and used for the retirement of Bonds and Contracts in the same proportion which the aggregate unpaid principal balance of Series 2021 Installment Payments then bears to the aggregate unpaid principal amount of such Bonds and Contracts.

Further Assurances. The District will adopt, deliver, execute and make any and all further assurances, instruments and resolutions as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Installment Purchase Agreement and for the better assuring and confirming unto the Authority of the rights and benefits provided to it therein.

Enforcement of Contracts. So long as any of the 2021 Bonds are outstanding, the District will not voluntarily consent to or permit any rescission of, nor will it consent to any amendment to or otherwise take any action under or in connection with any contracts previously or later entered into which contracts provide for water to be supplied to the District which consent, revision, amendment or other action will reduce the supply of water thereunder (except as provided therein), unless the Board of Directors of the District determines by resolution that such rescission or amendment would not materially adversely affect the ability of the District to pay Series 2021 Installment Payments.

The District has covenanted to not issue or enter into any additional revenue bonds, notes, contracts or other evidences of indebtedness secured by a pledge of and lien on the Revenues prior to the pledge of and lien on the Revenues described in the Installment Purchase Agreement or payable from Net Revenues prior to the Series 2021 Installment Payments.

Covenant to Prorate Assessments and Standby Charges. In the event that the District levies the Contractual Obligation Assessment together with any other assessments, stand by charges or other charges on a single invoice, and the District receives only partial payment with respect to such invoice, the District will allocate such partial payment among the Contractual Obligation Assessment and such other assessments, stand by charges and other charges on a pro rata basis.

PREPAYMENT OF SERIES 2021 INSTALLMENT PAYMENTS

Prepayment.

(a) The District may or will, as the case may be, prepay from Net Proceeds as provided in the Installment Purchase Agreement the Series 2021 Installment Payments in whole, or in part, on any date in the order of payment date as directed by the District, at a prepayment price equal to the sum of the principal amount of the 2021 Bonds to be prepaid plus accrued interest thereon to the date of prepayment, without premium.

(b) The District may prepay the Series 2021 Installment Payments which are attributable to the 2021A Bonds (as set forth in the Indenture), as a whole, or in part, in the order of payment date as directed by the District, at a prepayment price equal to the principal amount of the Series 2021 Installment

Payments which are attributable to the 2021A Bonds to be prepaid, together with accrued interest thereon to the date of prepayment as set forth in the Indenture.

(c) The District may prepay the Series 2021 Installment Payments which are attributable to the 2021B Bonds (as set forth in the Indenture) as a whole, or in part, in the order of payment date as directed by the District, at a prepayment price equal to the principal amount of the Series 2021 Installment Payments which are attributable to the 2021B Bonds to be prepaid, together with accrued interest thereon to the date of prepayment, as set forth in the Indenture

(d) Notwithstanding any such prepayment, the District will not be relieved of its obligations under the Installment Purchase Agreement until the Purchase Price is fully paid (or provision for payment thereof is provided to the written satisfaction of the Authority).

Method of Prepayment. Before making any prepayment pursuant to the Installment Purchase Agreement, the District will, within five (5) days following the event permitting the exercise of such right to prepay or creating such obligation to prepay, give written notice to the Authority and the Trustee describing such event and specifying the date on which the prepayment will be paid, which date will be not less than sixty (60) (or such shorter number of days as is acceptable to the Trustee) days from the date that such notice is given.

EVENTS OF DEFAULT AND REMEDIES OF THE AUTHORITY

Events of Default and Acceleration of Maturities. If one or more of the following Events of Default happens:

(1) if default is made by the District in the due and punctual payment of any Series 2021 Installment Payment or any Contract or Bond when and as the same becomes due and payable, whether at maturity as therein expressed, by proceedings for redemption, by acceleration, or otherwise;

(2) if default is made by the District in the observance of any of the other covenants, agreements or conditions on its part in the Installment Purchase Agreement if such default has continued for a period of thirty (30) days after written notice thereof, specifying such default and requiring the same to be remedied, has been given to the District by the Authority; provided, however, that if in the reasonable opinion of the District the default stated in the notice can be corrected, but not within such thirty (30) day period and corrective action is instituted by the District within such thirty (30) day period and diligently pursued in good faith until the default is corrected such default will not be an Event of Default under the Installment Purchase Agreement;

(3) if the District files a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction approves a petition filed with or without the consent of the District seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction assumes custody or control of the District or of the whole or any substantial part of its property; or

(4) if payment of the principal of any Bond or with respect to any Contract is accelerated in accordance with its terms;

then and in each and every such case during the continuance of an Event of Default, the Authority will, by notice in writing to the District, declare the entire principal amount of the unpaid Series 2021 Installment Payments and the accrued interest thereon to be due and payable immediately, and upon any such declaration

the same will become immediately due and payable, anything contained in the Installment Purchase Agreement to the contrary notwithstanding. The Installment Purchase Agreement, however, is subject to the condition that if at any time after the entire principal amount of the unpaid Series 2021 Installment Payments and the accrued interest thereon is declared due and payable, but before any judgment or decree for the payment of the moneys due has been obtained or entered, the District will deposit with the Authority an amount that is sufficient to pay the unpaid principal amount of the Series 2021 Installment Payments or the unpaid payment of any other Contract or Bond referred to in clause (1) above due prior to such declaration and the accrued interest thereon, with interest on such overdue installments, at the rate or rates applicable to the remaining unpaid principal balance of the Series 2021 Installment Payments or such Contract or Bond if paid in accordance with their terms, and the reasonable expenses of the Authority, and any and all other defaults known to the Authority (other than in the payment of the entire principal amount of the unpaid Series 2021 Installment Payments and the accrued interest thereon due and payable solely by reason of such declaration) have been made good or cured to the satisfaction of the Authority or provision deemed by the Authority to be adequate have been made therefor, then and in every such case the Authority, by written notice to the District, may rescind and annul such declaration and its consequences; but no such rescission and annulment will extend to or will affect any subsequent default or will impair or exhaust any right or power consequent thereon.

Application of Funds Upon Acceleration. Upon the date of the declaration of acceleration as provided in the Installment Purchase Agreement, all Revenues thereafter received by the District will be applied in the following order: First, to the payment, without preference or priority, and in the event of any insufficiency of such Revenues ratably without any discrimination or preference, of the fees, costs and expenses of the Trustee and its assigns and thereafter to the Authority, as the case may be, in carrying out the provisions of the Installment Purchase Agreement, including reasonable compensation to their respective accountants and counsel; Second, to the payment of the Operation and Maintenance Costs; and Third, to the payment of the entire principal amount of the unpaid Series 2021 Installment Payments and the unpaid principal amount of all Bonds and Contracts and the accrued interest thereon, with interest on the overdue installments at the rate or rates of interest applicable to the Series 2021 Installment Payments and such Bonds and Contracts if paid in accordance with their respective terms.

Other Remedies of the Authority. The Authority will have the right: (a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the District or any director, officer or employee thereof, and to compel the District or any such director, officer or employee to perform and carry out its or his or her duties under the Law and the agreements and covenants required to be performed by it or him or her contained in the Installment Purchase Agreement; (b) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Authority; or (c) by suit in equity upon the happening of an Event of Default to require the District and its directors, officers and employees to account as the trustee of an express trust.

Notwithstanding anything contained in the Installment Purchase Agreement, the Authority has no security interest in or mortgage on the 2021 Project, the Water System or other assets of the District and no default under the Installment Purchase Agreement will result in the loss of the 2021 Project, the Water System or other assets of the District.

No Waiver. Nothing in the Installment Purchase Agreement will affect or impair the obligation of the District, which is absolute and unconditional, to pay the Series 2021 Installment Payments to the Authority at the respective due dates or upon prepayment from the Net Revenues, the Revenue Fund and the other funds therein pledged for such payment, or will affect or impair the right of the Authority, which is also absolute and unconditional, to institute suit to enforce such payment by virtue of the contract embodied therein.

A waiver of any default or breach of duty or contract by the Authority will not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Authority to exercise any right or remedy accruing upon any default or breach of duty or contract will impair any such right or remedy or be construed to be a waiver of any

such default or breach of duty or contract or an acquiescence therein, and every right or remedy that is conferred upon the Authority by the Law or by the Installment Purchase Agreement may be enforced and exercised from time to time and as often as is deemed expedient by the Authority.

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

Remedies Not Exclusive. No remedy that is conferred upon or reserved to the Authority in the Installment Purchase Agreement is intended to be exclusive of any other remedy, and each such remedy is cumulative and is in addition to every other remedy given thereunder or now or later existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by the Law or any other law.

DISCHARGE OF OBLIGATIONS

Discharge of Obligations. When: (a) all or any portion of the Series 2021 Installment Payments have become due and payable in accordance with the Installment Purchase Agreement or a written notice of the District to prepay all or any portion of the Series 2021 Installment Payments have been filed with the Trustee; and (b) there has been deposited with the Trustee at or prior to the Series 2021 Installment Payment Date or dates specified for prepayment, in trust for the benefit of the Authority or its assigns and irrevocably appropriated and set aside to the payment of all or any portion of the Series 2021 Installment Payments, sufficient moneys or sufficient moneys and non-callable Permitted Investments that are described in clause (A) of the definition thereof, the principal of and interest on which Permitted Investments when due will provide money that is sufficient in the opinion of an Independent Certified Public Accountant to pay all principal, prepayment premium, if any, and interest of such Series 2021 Installment Payments to their respective Series 2021 Installment Payment Dates, as the case may be; and (c) provision has been made for paying all fees and expenses of the Trustee, then and in that event, the right, title and interest of the Authority in the Installment Purchase Agreement and the obligations of the District thereunder will, with respect to all or such portion of the Series 2021 Installment Payments as have been so provided for, thereupon cease, terminate, become void and be completely discharged and satisfied (except for the right of the Trustee and the obligation of the District to have such moneys and such Permitted Investments applied to the payment of such Series 2021 Installment Payments).

In such event, upon request of the District, the Trustee will cause an accounting for such period or periods as may be requested by the District to be prepared and filed with the District and will execute and deliver to the District all such instruments as may be necessary or desirable to evidence such total or partial discharge and satisfaction, as the case may be, and, in the event of a total discharge and satisfaction, the Trustee will pay over to the District, after payment of all amounts due the Trustee pursuant to the Indenture, as an overpayment of Series 2021 Installment Payments, all such moneys or such Permitted Investments held by it pursuant to the Installment Purchase Agreement, other than such moneys and such Permitted Investments as are required for the payment or prepayment of the Series 2021 Installment Payments, which moneys and Permitted Investments will continue to be held by the Trustee in trust for the payment of the Series 2021 Installment Payments and will be applied by the Trustee to the payment of the Series 2021 Installment Payments of the District.

MISCELLANEOUS

Limited Liability. Notwithstanding anything contained in the Installment Purchase Agreement, but subject to the priority of payment with respect to Operation and Maintenance Costs, the District will not be required to advance any moneys derived from any source other than the Contractual Obligation Assessments, Revenues, the Revenue Fund and the other moneys pledged thereunder whether for the payment of the Series 2021 Installment Payments or for any of the purposes therein mentioned. Nevertheless, the District may, but is

not be required to advance for any such purpose any funds of the District which may be made available for such purpose.

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

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

Waiver of Personal Liability. No director, officer or employee of the District is individually or personally liable for the payment of the Series 2021 Installment Payments, but nothing contained in the Installment Purchase Agreement relieves any director, officer or employee of the District from the performance of any official duty provided by any applicable provisions of law or thereby.

Partial Invalidity. If any one or more of the agreements or covenants or portions thereof required by the Installment Purchase Agreement to be performed by or on the part of the District or the Authority is contrary to law, then such agreement or agreements, such covenant or covenants or such portions thereof will be null and void and will be deemed separable from the remaining agreements and covenants or portions thereof and will in no way affect the validity of the Installment Purchase Agreement. The District and the Authority have declared that they would have executed the Installment Purchase Agreement, and each and every other article, section, paragraph, subdivision, sentence, clause and phrase thereof irrespective of the fact that any one or more articles, sections, paragraphs, subdivisions, sentences, clauses or phrases thereof or the application thereof to any person or circumstance may be held to be unconstitutional, unenforceable or invalid.

Assignment. The Installment Purchase Agreement and any rights thereunder may be assigned by the Authority, as a whole or in part, without the necessity of obtaining the prior consent of the District. In addition to the rights and remedies assigned by the Authority to the Trustee, to the extent that the Indenture and the Installment Purchase Agreement confer upon or give or grant to the Trustee any right, remedy or claim under or by reason of the Indenture or the Installment Purchase Agreement, the Trustee is thereby explicitly recognized as being a third party beneficiary thereunder and may enforce any such right, remedy or claim conferred given or granted.

Net Contract. The Installment Purchase Agreement is deemed and construed to be a net contract, and the District will pay absolutely net during the term thereof the Series 2021 Installment Payments and all other payments required thereunder, free of any deductions and without abatement, diminution or set-off whatsoever.

California Law. The Installment Purchase Agreement will be construed and governed in accordance with the laws of the State of California.

Effective Date. The Installment Purchase Agreement is effective upon its execution and delivery, and terminates when the Purchase Price is fully paid (or provision for the payment thereof has been made to the written satisfaction of the Authority).

Execution in Counterparts. The Installment Purchase Agreement may be executed in several counterparts, each of which will be deemed an original, and all of which will constitute but one and the same instrument.

Indemnification of Authority. The District has agreed to indemnify and hold harmless the Authority and its assigns and its officers and directors if and to the extent permitted by law, from and against all claims, advances, damages and losses, including legal fees and expenses, arising out of or in connection with the acceptance or the performance of its duties under the Installment Purchase Agreement and under the Indenture; provided that no indemnification will be made for willful misconduct, negligence or breach of an obligation under the Installment Purchase Agreement or under the Indenture by the Authority.

Amendments Permitted.

(a) The Installment Purchase Agreement and the rights and obligations of the Authority and the District and of the Owners of the 2021 Bonds and of the Trustee may be modified or amended at any time by a written amendment thereto executed by the Authority and the District which will become binding when the written consents of the Owners of a majority in aggregate principal amount of the 2021 Bonds then Outstanding, exclusive of 2021 Bonds disqualified as provided in the Indenture. No such modification or amendment may: (1) extend the fixed maturity of any 2021 Bonds, or reduce the amount of principal thereof or premium (if any) thereon, or extend the time of payment, or change the rate of interest or the method of computing the rate of interest thereon, or extend the time of payment of interest thereon, without the consent of the Owner of each 2021 Bond so affected; or (2) reduce the aforesaid percentage of 2021 Bonds the consent of the Owners of which is required to affect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Installment Purchase Agreement prior to or on a parity with the lien created by the Installment Purchase Agreement except as permitted therein, or deprive the Owners of the 2021 Bonds of the lien created by the Indenture on such Revenues and other assets except as permitted in the Installment Purchase Agreement, without the consent of the Owners of all of the 2021 Bonds then Outstanding.

(b) The Installment Purchase Agreement and the rights and obligations of the Authority and the District and of the Owners of the 2021 Bonds may also be modified or amended at any time by a written amendment thereto executed by the Authority and the District which will become binding upon adoption, without the consent of the Owners of any 2021 Bonds, but only to the extent permitted by law and only for any one or more of the following purposes: (1) to add to the covenants and agreements of the District contained in the Installment Purchase Agreement other covenants and agreements thereafter to be observed, to pledge or assign additional security for the 2021 Bonds (or any portion thereof), or to surrender any right or power therein reserved to or conferred upon the District; (2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Installment Purchase Agreement, or in regard to matters or questions arising under the Installment Purchase Agreement, as the District may deem necessary or desirable; and (3) to modify, amend or supplement the Installment Purchase Agreement in such manner as to cause interest on the 2021A Bonds to remain excludable from gross income under the Code. No amendment without consent of the Owners may modify any of the rights or obligations of the Trustee without the written consent thereto.

INDENTURE OF TRUST

DEFINITIONS; CONTENT OF CERTIFICATES AND OPINIONS

Definitions. Unless the context otherwise requires, the terms that are defined in Indenture will, for all purposes of the Indenture and of any indenture supplemental thereto and of any certificate, opinion or other document that is mentioned therein, have the meanings that are specified therein, to be equally applicable to both the singular and plural forms of any of the terms that are defined therein. Unless the context otherwise requires, all capitalized terms that are used therein and not defined have the meanings that are ascribed thereto in the Installment Purchase Agreement.

Authority Revenues. The term “Authority Revenues” means: (a) all Series 2021A Installment Payments received by the Authority or the Trustee pursuant to or with respect to the Installment Purchase

Agreement; and (b) all interest or gain derived from the investment of amounts in any of the funds or accounts established under the Indenture with respect to the Bonds.

Authorized Representative. The term “Authorized Representative” means with respect to the Authority, its Chair, Vice Chair, Secretary, Treasurer or Executive Director or any other person designated as an Authorized Representative of the Authority by a Certificate of the Authority signed by its Chair, Vice Chair, Secretary, Treasurer or Executive Director and filed with the Trustee.

Bond Counsel. The term “Bond Counsel” means Stradling Yocca Carlson & Rauth, a Professional Corporation, or another firm of nationally recognized attorneys experienced in the issuance of obligations the interest on which is excludable from gross income under Section 103 of the Code.

Bond Year. The term “Bond Year” means the period beginning on the date of issuance of the Bonds and ending on February 28, 2022, and each successive one year or, during the last period prior to maturity, shorter period thereafter until there are no Outstanding Bonds.

Bonds. The term “Bonds” means , collectively, the 2021A Bonds and the 2021B Bonds issued by the Authority and at any time Outstanding pursuant to the Indenture.

Business Day. The term “Business Day” means: (i) a day which is not a Saturday, Sunday or legal holiday on which banking institutions in the State in which the Office of the Trustee is located, are closed; or (ii) a day on which the New York Stock Exchange is not closed.

Certificate; Direction; Request; Requisition. The terms “Certificate,” “Direction,” “Request,” and “Requisition” of the Authority mean a written certificate, direction, request or requisition signed in the name of the Authority by its Authorized Representative. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined will be read and construed as a single instrument. If and to the extent required by the Indenture, each such instrument will include the statements that are provided for in the Indenture.

Closing Date. The term “Closing Date” means the date on which the Bonds are delivered to the original purchaser thereof.

Code. The term “Code” means the Internal Revenue Code of 1986, as amended.

Costs of Issuance. The term “Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the Authority and related to the authorization, issuance, sale and delivery of the Bonds, including but not limited to costs of preparation and reproduction of documents, printing expenses, filing and recording fees, initial fees and charges of the Trustee and counsel to the Trustee, legal fees and charges, fees and disbursements of consultants and professionals, Rating Agency fees, title insurance premiums, letter of credit fees and bond insurance premiums (if any), fees and charges for preparation, execution and safekeeping of the Bonds and any other cost, charge or fee in connection with the original issuance of the Bonds.

Costs of Issuance Fund. The term “Costs of Issuance Fund” means the fund by that name established pursuant to the Indenture.

Depository; DTC. The terms “Depository” and “DTC” mean The Depository Trust Company, New York, New York, a limited purpose trust company that is organized under the laws of the State of New York, in its capacity as securities depository for the Bonds.

Event of Default. The term “Event of Default” means any of the events that are specified in the Indenture.

Federal Securities. The term “Federal Securities” means any direct, noncallable general obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America), or noncallable obligations the timely payment of principal of and interest on which are fully and unconditionally guaranteed by the United States of America.

Fitch. The term “Fitch” means Fitch Ratings, Inc., or any successor thereto.

Government Code. The term “Government Code” means the Government Code of the State.

Information Services. The term “Information Services” means the Municipal Securities Rulemaking Board; or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other services providing information with respect to called bonds as the Authority may specify in a certificate to the Trustee or as the Trustee may select.

Interest Account. The term “Interest Account” means the account by that name in the Bond Payment Fund established pursuant to the Indenture.

Interest Payment Date. The term “Interest Payment Date” means each March 1 and September 1, commencing on March 1, 2022.

Investment Agreement. The term “Investment Agreement” means an investment agreement by a provider, supported by appropriate opinions of counsel, provided that any such Investment Agreement will: (i) be from a provider rated at the time of initial execution by S&P or Moody’s at “A-” or “A3”, respectively, or above; (ii) require the Authority or the District to terminate such agreement and immediately reinvest the proceeds thereof in other Permitted Investments if the rating assigned to the provider by S&P or Moody’s falls to “BBB” or “Baa2”, respectively, or below; and (iii) expressly permit the withdrawal, without penalty, of any amounts necessary at any time to fund any deficiencies on account of debt service requirements with respect to the Bonds, together with such amendments as may be approved by the Authority and the Trustee from time to time.

Letter of Representations. The term “Letter of Representations” means the letter of the Authority delivered to and accepted by the Depository on or prior to delivery of the Bonds as book-entry bonds setting forth the basis on which the Depository serves as depository for such book-entry bonds, as originally executed or as it may be supplemented or revised or replaced by a letter from the Authority delivered to and accepted by the Depository.

Nominee. The term “Nominee” means the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to the Indenture.

Office. The term “Office” means with respect to the Trustee, the corporate trust office of the Trustee in Los Angeles, California, provided that for purposes of payment, redemption, exchange, transfer, surrender and cancellation of Certificates such term means the principal corporate trust office of the Trustee in St. Paul, Minnesota or such other office as the Trustee may from time to time designate in writing to the Authority and the Owners.

Opinion of Counsel. The term “Opinion of Counsel” means a written opinion of counsel (including but not limited to counsel to the Authority) selected by the Authority. If and to the extent required by the provisions of the Indenture, each Opinion of Counsel will include the statements provided for therein.

Outstanding. The term “Outstanding,” when used as of any particular time with reference to Bonds, means (subject to the provisions of the Indenture) all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except: (i) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (ii) Bonds with respect to which all liability of the Authority has been discharged in accordance with the Indenture, including Bonds (or portions thereof) described therein; (iii) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds have been authenticated and delivered by the Trustee pursuant to the Indenture; and (iv) Bonds paid pursuant to the Indenture.

Owner; Bond Owner. The terms “Owner” or “Bond Owner,” whenever used in the Indenture with respect to a Bond, mean the person in whose name the ownership of such Bond is registered on the Registration Books.

Participants. The term “Participants” means those broker-dealers, banks and other financial institutions from time to time for which the Depository holds book-entry certificates as securities depository.

Permitted Investments. The term “Permitted Investments” means any of the following which at the time are legal investments under the laws of the State for moneys held under the Indenture and then proposed to be invested therein:

- (A) Federal Securities;
- (B) for all purposes, including defeasance investments in refunding escrow accounts:
 - (1) cash (insured at all times by the Federal Deposit Insurance Corporation or otherwise collateralized with obligations described in clause (2) below);
 - (2) direct, non-callable obligations of (including obligations issued or held in book entry form on the books of: the Department of the Treasury of the United States of America;
 - (3) U.S. Treasury Certificates, Notes and Bonds (including State and Local Government Series);
 - (4) Resolution Funding Corp. strips (only the interest component of REFCORP strips which have been stripped by request to the Federal Reserve Bank of New York in book entry form are acceptable);
 - (5) Pre-refunded municipal bonds rated “Aaa” by Moody’s and “AAA” by S&P. If however, the issue is only rated by S&P (i.e., there is no Moody’s rating), then the pre-refunded bonds must have been pre-refunded with cash, direct U.S. or U.S. guaranteed obligations, or “AAA” rated pre-refunded municipal obligations to satisfy this condition; and
 - (6) Obligations issued by the following agencies which are backed by the full faith and credit of the U.S.: a. U.S. Export-Import Bank (Eximbank): Direct obligations or fully guaranteed certificates of beneficial ownership; b. Farmers Home Administration: Certificates of beneficial ownership; c. Federal Financing Bank; d. General Services Administration: Participation Certificates; e. U.S. Maritime Administration: Guaranteed Title XI financing; and f. U.S. Department of Housing and Urban Development: Project Notes, Local Authority Bonds, New Communities Debentures – U.S. government guaranteed debentures, U.S. Public Housing Notes and Bonds – U.S. government guaranteed public housing notes and bonds; and

(C) for all purposes other than defeasance investments in refunding escrow accounts:

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

(2) obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America: Farmers Home Administration; General Services Administration; United States Maritime Administration; Government National Mortgage Association; United States Department of Housing & Urban Development; Federal Financing Bank; and Federal Housing Administration Debentures;

(3) obligations of any of the following federal agencies which obligations do not represent the full faith and credit of the United States of America, including the Federal Home Loan Bank System; Federal Home Loan Mortgage Corporation (FHLMC); Federal National Mortgage Association (FNMA); Student Loan Marketing Association; Resolution Funding Corp.; and Farm Credit System;

(4) commercial paper which is rated at the time of purchase in the single highest classification, “A-1” by S&P and “P-1” by Moody’s;

(5) investments in a money market fund rated “AAAm”, “AAAm-G” or “AA-m” or better by S&P, or “Aaa”, “Aa1” or “Aa2” or better by Moody’s, including any fund for which the Trustee or an affiliate acts as investment advisor or provides other services but excluding funds with a floating net asset value;

(6) Certificates of deposit secured at all times by collateral described in clauses (A) and/or (B)(1) above. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks, including the Trustee and its affiliates. The collateral must be held by a third party and the Trustee must have a perfected first security interest in the collateral;

(7) Certificates of deposit (including those of the Trustee, its parent and its affiliates), savings accounts, deposit accounts or money market deposits;

(8) Investment Agreements, including GICs, Forward Purchase Agreements and Reserve Fund Put Agreements;

(9) Federal Funds or bankers acceptances with a maximum term of one year of any bank, including the Trustee and its affiliates, which has an unsecured, uninsured and unguaranteed obligation rating of “Prime-1” or “A3” or better by Moody’s and “A-1” or “A” or better by S&P;

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

1. Repurchase agreements must be between the municipal entity and a dealer bank or securities firm.

a. Primary dealers on the Federal Reserve reporting dealer list which are rated “A” or better by S&P and Moody’s; or

b. Banks rated “A” or above by S&P and Moody’s.

2. The written contract must include the following:

a. Securities which are acceptable for transfer are: (1) Direct U.S. Government securities; or (2) Federal agency securities that are backed by the full faith and credit of the U.S. government (and FNMA and FHLMC);

b. The term of the repurchase agreement may be up to thirty (30) days;

c. The collateral must be delivered to the Trustee or the District, as applicable, trustee (if trustee is not supplying the collateral) or third party acting as agent for the trustee (if the trustee is supplying the collateral) before/simultaneous with payment (perfection by possession of certificates securities).

d. The securities must be valued weekly, marked-to-market at current market price plus accrued interest. The value of collateral must be equal to 104% of the amount of cash transferred by the Trustee or the District, as applicable, to the dealer bank or security firm under the repo plus accrued interest. If the value of the securities held as collateral slips below the 104% of the value of the cash transferred by the Trustee or the District, as applicable, then additional cash and/or acceptable securities must be transferred. If, however, the securities used as collateral are FNMA or FHLMC, then the value of collateral must equal 105%.

3. Legal opinion which must be delivered to the Trustee and the District: the repurchase agreement meets guidelines under State law for legal investment of public funds;

(11) The Local Agency Investment Fund of the State of California created pursuant to Section 16429.1 of the California Government Code;

(12) shares of beneficial interests in investments purchased by the Investment Trust of California, doing business as CalTRUST, a joint powers authority created pursuant to Section 6509.7 of the California Government Code, to the extent the Trustee is authorized to register such investment in its name;

(13) Unsecured certificates of deposit, time deposits, money market deposits, demand deposits and bankers' acceptances of any bank (including those of Trustee, its parent and its affiliates) the short term obligations of which are rated on the date of purchase "A-1" or better by S&P, "P-1" or better by Moody's or "F1" or better by Fitch.

Principal Account. The term "Principal Account" means the account by that name in the Bond Payment Fund established pursuant to the Indenture.

Proceeds Fund. The term "Proceeds Fund" means the fund by that name established pursuant to the Indenture.

Rating. The term "Rating" means any currently effective rating on the Bonds issued by a Rating Agency.

Rating Agency. The term "Rating Agency" means S&P, Moody's and Fitch.

Rebate Fund. The term "Rebate Fund" means the fund by that name established pursuant to the Indenture.

Record Date. The term "Record Date" means, with respect to any Interest Payment Date, the fifteenth (15th) day of the calendar month preceding such Interest Payment Date, whether or not such day is a Business Day.

Redemption Date. The term “Redemption Date” means the date fixed for an optional redemption prior to maturity of the Bonds.

Redemption Fund. The term “Redemption Fund” means the fund by that name established pursuant to the Indenture.

Redemption Price. The term “Redemption Price” means, with respect to any Bond (or portion thereof), the principal amount of such Bond (or portion) plus the interest accrued to the applicable Redemption Date and the applicable premium, if any, payable upon redemption thereof pursuant to the provisions of such Bond and the Indenture.

Registration Books. The term “Registration Books” means the records maintained by the Trustee for the registration of ownership and registration of transfer of the Bonds pursuant to the Indenture.

Responsible Officer of the Trustee. The term “Responsible Officer of the Trustee” means any officer within the corporate trust division (or any successor group or department of the Trustee) customarily performing functions similar to those performed by the persons who at the time are such officers, respectively, with responsibility for the administration of the Indenture.

S&P. The term “S&P” means S&P Global Ratings, a Standard & Poor’s Financial Services LLC business, or any successor thereto.

Securities Depositories. The term “Securities Depositories” means The Depository Trust Company; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other securities depositories as the Authority may designate in a Request of the Authority deliver to the Trustee.

State. The term “State” means the State of California.

Supplemental Indenture. The term “Supplemental Indenture” means any indenture that is later duly authorized and entered into between the Authority and the Trustee, supplementing, modifying or amending the Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

Tax Certificate. The term “Tax Certificate” means the Tax Certificate dated the Closing Date, concerning certain matters pertaining to the use and investment of proceeds of the 2021A Bonds issued by the Authority on the date of issuance of the 2021A Bonds, including any and all exhibits attached thereto.

Trustee. The term “Trustee” means U.S. Bank National Association, a national banking association duly organized and existing under the laws of the United States of America, or its successor, as Trustee under the Indenture as provided in the Indenture.

2021A Bonds. The term “2021A Bonds” means the Panoche Financing Authority Revenue Bonds (Panoche Water District), Series 2021A.

2021B Bonds. The term “2021B Bonds” means the Panoche Financing Authority Revenue Bonds (Panoche Water District), Series 2021B (Taxable).

Content of Certificates and Opinions. Every certificate or opinion that is provided for in the Indenture, except the certificate of destruction that is provided for in the Indenture, with respect to compliance with any provision of the Indenture will include: (1) a statement that the person making or giving such certificate or opinion has read such provision and the definitions in the Indenture relating thereto; (2) a brief statement as to the nature and scope of the examination or investigation upon which the certificate or opinion is based; (3) a statement that, in the opinion of such person he or she has made or caused to be made such

examination or investigation as is necessary to enable such person to express an informed opinion with respect to the subject matter referred to in the instrument to which such person's signature is affixed; (4) a statement of the assumptions upon which such certificate or opinion is based, and that such assumptions are reasonable; and (5) a statement as to whether, in the opinion of such person, such provision has been complied with.

Any such certificate or opinion that is made or given by an officer of the Authority may be based, insofar as it relates to legal or accounting matters, upon a certificate or opinion of or representation by counsel or an Independent Certified Public Accountant, unless such officer knows, or in the exercise of reasonable care should have known, that the certificate, opinion or representation with respect to the matters upon which such certificate or statement may be based, as aforesaid, is erroneous. Any such certificate or opinion made or given by counsel or an Independent Certified Public Accountant may be based, insofar as it relates to factual matters (with respect to which information is in the possession of the Authority) upon a certificate or opinion of or representation by an officer of the Authority, unless such counsel or Independent Certified Public Accountant knows, or in the exercise of reasonable care should have known, that the certificate or opinion or representation with respect to the matters upon which such person's certificate or opinion or representation may be based, as aforesaid, is erroneous. The same officer of the Authority, or the same counsel or Independent Certified Public Accountant, as the case may be, need not certify to all of the matters that are required to be certified under any provision of the Indenture, but different officers, counsel or Independent Certified Public Accountants may certify to different matters, respectively.

THE BONDS

Registration Books. The Trustee will keep or cause to be kept, at the Office of the Trustee, sufficient records for the registration and transfer of ownership of the Bonds, which will upon reasonable notice and at reasonable times be open to inspection during regular business hours by the Authority, the District and the Owners; and, upon presentation for such purpose, the Trustee will, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on such records, the ownership of the Bonds as provided in the Indenture.

The person in whose name any Bond is registered will be deemed the Owner thereof for all purposes of the Indenture, and payment of or on account of the interest on and principal and Redemption Price of such Bonds will be made only to or upon the order in writing of such registered Owner, which payments will be valid and effectual to satisfy and discharge liability upon such Bond to the extent of the sum or sums so paid.

Bonds Mutilated, Lost, Destroyed or Stolen. If any Bond becomes mutilated, the Authority, at the expense of the Owner of said Bond, will execute, and the Trustee will thereupon authenticate and deliver, a new Bond of like tenor, series and authorized denomination in exchange and substitution for the Bonds so mutilated, but only upon surrender to the Trustee of the Bond so mutilated. Every mutilated Bond so surrendered to the Trustee will be canceled by it and upon the written request of the Authority delivered to, or upon the order of, the Authority. If any Bond is lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee and, if such evidence be satisfactory to the Trustee and indemnity satisfactory to the Trustee is given, the Authority, at the expense of the Owner, will execute, and the Trustee will thereupon authenticate and deliver, a new Bond of like tenor, series and authorized denomination in lieu of and in substitution for the Bond so lost, destroyed or stolen (or if any such Bond has matured or is about to mature, instead of issuing a substitute Bond, the Trustee may pay the same without surrender thereof). The Authority may require payment by the Owner of a sum not exceeding the actual cost of preparing each new Bond issued under the Indenture and of the expenses which may be incurred by the Authority and the Trustee in the premises. Any Bond issued under the provisions of the Indenture in lieu of any Bond alleged to be lost, destroyed or stolen will constitute an original additional contractual obligation on the part of the Authority whether or not the Bond so alleged to be lost, destroyed, or stolen be at any time enforceable by anyone, and will be entitled to the benefits of the Indenture with all other Bonds secured by the Indenture. Notwithstanding any other provision of the Indenture, in lieu of delivering a new Bond for a Bond which has been mutilated, lost, destroyed or stolen and which has matured or has been selected for redemption, the Trustee may, at the

Authority's written direction, make payment of such Bond upon receipt of indemnity satisfactory to the Trustee.

Book-Entry System.

(a) Election of Book-Entry System. Prior to the issuance of the Bonds, the Authority may provide that such Bonds will be initially issued as book-entry Bonds. If the Authority elects to deliver any Bonds in book-entry form, then the Authority will cause the delivery of a separate single fully registered bond (which may be typewritten) for each maturity date of such Bonds in an authorized denomination corresponding to that total principal amount of the Bonds designated to mature on such date. Upon initial issuance, the ownership of each such Bond will be registered in the Bond Registration Books in the name of the Nominee, as nominee of the Depository, and ownership of the Bonds, or any portion thereof may not thereafter be transferred except as provided in the Indenture.

With respect to book-entry Bonds, the Authority and the Trustee will have no responsibility or obligation to any Participant or to any person on behalf of which such a Participant holds an interest in such book-entry Bonds. Without limiting the immediately preceding sentence, the Authority and the Trustee have no responsibility or obligation with respect to: (i) the accuracy of the records of the Depository, the Nominee, or any Participant with respect to any ownership interest in book-entry Bonds; (ii) the delivery to any Participant or any other person, other than an Owner as shown in the Bond Registration Books, of any notice with respect to book-entry Bonds, including any notice of redemption; (iii) the selection by the Depository and its Participants of the beneficial interests in book-entry Bonds to be redeemed in the event that the Authority redeems the Bonds in part; or (iv) the payment by the Depository or any Participant or any other person of any amount of principal of, premium, if any, or interest on book-entry Bonds. The Authority and the Trustee may treat and consider the person in whose name each book-entry Bond is registered in the Bond Registration Books as the absolute Owner of such book-entry Bond for the purpose of payment of principal of, premium and interest on such Bond, for the purpose of giving notices of redemption and other matters with respect to such Bond, for the purpose of registering transfers with respect to such Bond, and for all other purposes whatsoever. The Trustee will pay all principal of, premium, if any, and interest on the Bonds only to or upon the order of the respective Owner, as shown in the Bond Registration Books, or his respective attorney duly authorized in writing, and all such payments will be valid and effective to fully satisfy and discharge the Authority's obligations with respect to payment of principal of, premium, if any, and interest on the Bonds to the extent of the sum or sums so paid. No person other than an Owner, as shown in the Bond Registration Books, will receive a Bond evidencing the obligation to make payments of principal of, premium, if any, and interest on the Bonds. Upon delivery by the Depository to the Authority and the Trustee of written notice to the effect that the Depository has determined to substitute a new nominee in place of the Nominee, and subject to the provisions in the Indenture with respect to Record Dates, the word Nominee in the Indenture refers to such nominee of the Depository.

(b) Delivery of Letter of Representations. In order to qualify the book-entry Bonds for the Depository's book-entry system, the Authority will execute and deliver to the Depository a Letter of Representations. The execution and delivery of a Letter of Representations will not in any way impose upon the Authority or the Trustee any obligation whatsoever with respect to persons having interests in such book-entry Bonds other than the Owners, as shown on the Registration Books. In addition to the execution and delivery of a Letter of Representations, the Authority will take such other actions, not inconsistent with the Indenture, as are reasonably necessary to qualify book-entry Bonds for the Depository's book-entry program.

(c) Selection of Depository. In the event that: (i) the Depository determines not to continue to act as securities depository for book-entry Bonds; or (ii) the Authority determines that continuation of the book-entry system is not in the best interest of the beneficial owners of the Bonds or the Authority, then the Authority will discontinue the book-entry system with the Depository. If the Authority determines to replace the Depository with another qualified securities depository, the Authority will prepare or direct the preparation of a new single, separate, fully registered Bond for each of the maturity dates of such book-entry Bonds,

registered in the name of such successor or substitute qualified securities depository or its Nominee as provided in the Indenture. If the Authority fails to identify another qualified securities depository to replace the Depository, then the Bonds will no longer be restricted to being registered in such Bond Registration Books in the name of the Nominee, but will be registered in whatever name or names the Owners transferring or exchanging such Bonds will designate, in accordance with the provisions of the Indenture.

(d) Payments To Depository. Notwithstanding any other provision of the Indenture to the contrary, so long as all Outstanding Bonds are held in book-entry form and registered in the name of the Nominee, all payments of principal of, redemption premium, if any, and interest on such Bonds and all notices with respect to such Bonds will be made and given, respectively to the Nominee, as provided in the Letter of Representations or as otherwise instructed by the Depository and agreed to by the Trustee notwithstanding any inconsistent provisions in the Indenture.

(e) Transfer of Bonds to Substitute Depository.

(i) The Bonds will be initially issued as provided in the Indenture. Registered ownership of such Bonds, or any portions thereof, may not thereafter be transferred except: (A) to any successor of DTC or its nominee, or of any substitute depository designated pursuant to clause (B) below (“Substitute Depository”); provided that any successor of DTC or Substitute Depository will be qualified under any applicable laws to provide the service proposed to be provided by it; (B) to any Substitute Depository, upon: (1) the resignation of DTC or its successor (or any Substitute Depository or its successor) from its functions as depository; or (2) a determination by the Authority that DTC (or its successor) is no longer able to carry out its functions as depository; provided that any such Substitute Depository will be qualified under any applicable laws to provide the services proposed to be provided by it; or (C) to any person as provided below, upon: (1) the resignation of DTC or its successor (or any Substitute Depository or its successor) from its functions as depository; or (2) a determination by the Authority that DTC or its successor (or Substitute Depository or its successor) is no longer able to carry out its functions as depository.

(ii) In the case of any transfer pursuant to clause (A) or clause (B) of above, upon receipt of all Outstanding Bonds by the Trustee, together with a written request of the Authority to the Trustee designating the Substitute Depository, a single new Bond, which the Authority will prepare or cause to be prepared, will be issued for each maturity of Bonds then Outstanding, registered in the name of such successor or such Substitute Depository or their Nominees, as the case may be, all as specified in such written request of the Authority. In the case of any transfer pursuant to clause (C) above, upon receipt of all Outstanding Bonds by the Trustee, together with a written request of the Authority to the Trustee, new Bonds, which the Authority will prepare or cause to be prepared, will be issued in such denominations and registered in the names of such persons as are requested in such written request of the Authority, subject to the limitations of the Indenture, provided that the Trustee will not be required to deliver such new Bonds within a period of less than sixty (60) days from the date of receipt of such written request from the Authority.

(iii) In the case of a partial redemption or an advance refunding of any Bonds evidencing a portion of the principal maturing in a particular year, DTC or its successor (or any Substitute Depository or its successor) will make an appropriate notation on such Bonds indicating the date and amounts of such reduction in principal, in form acceptable to the Trustee, all in accordance with the Letter of Representations. The Trustee will not be liable for such Depository’s failure to make such notations or errors in making such notations and the records of the Trustee as to the outstanding principal amount of such Bonds will be controlling.

(iv) The Authority and the Trustee are entitled to treat the person in whose name any Bond is registered as the Owner thereof for all purposes of the Indenture and any applicable laws, notwithstanding any notice to the contrary received by the Trustee or the Authority; and the Authority and the Trustee will not have responsibility for transmitting payments to, communicating with, notifying, or otherwise dealing with any beneficial owners of the Bonds. Neither the Authority nor the Trustee have any responsibility

or obligation, legal or otherwise, to any such beneficial owners or to any other party, including DTC or its successor (or Substitute Depository or its successor), except to the Owner of any Bonds, and the Trustee may rely conclusively on its records as to the identity of the Owners of the Bonds.

VALIDITY OF BONDS

Validity of Bonds. The validity of the authorization and issuance of the Bonds is not dependent on and will not be affected in any way by any proceedings taken by the Authority, the District or the Trustee with respect to or in connection with the Installment Purchase Agreement. The recital contained in the Bonds that the same are issued pursuant to the Constitution and laws of the State will be conclusive evidence of the validity and of compliance with the provisions of law in their issuance.

REVENUES, FUNDS AND ACCOUNTS; PAYMENT OF PRINCIPAL AND INTEREST

Pledge and Assignment; Bond Payment Fund.

(a) All of the Authority Revenues and any other amounts (including proceeds of the sale of the Bonds) held in any fund or account that is established pursuant to the Indenture (except the Rebate Fund) have been irrevocably pledged to secure the payment of the principal of and interest, and the premium, if any, on the Bonds in accordance with their terms and the provisions of the Indenture. Said pledge constitutes a lien on and security interest in such amounts and will attach, be perfected and be valid and binding from and after the Closing Date, without any physical delivery thereof or further act and will be valid and binding against all parties having claims of any kind in tort, contract or otherwise against the Authority, irrespective of whether such parties have notice of the Indenture.

(b) The Authority, for good and valuable consideration in hand received, has irrevocably assigned and transferred to the Trustee without recourse, for the benefit of the Owners of the Bonds as set forth in the Indenture, all of its rights, title, and interest in all Series 2021A Installment Payments payable by the District pursuant to the Installment Purchase Agreement, including all rights of the Authority thereunder as may be necessary to enforce compliance with said provisions (including enforcement of payment obligations and rate covenants, if any, contained in the Installment Purchase Agreement, or otherwise to protect the interest of the Owners of the Bonds). Such assignment is subject to and limited by the terms of the Indenture.

(c) There has been established with the Trustee the Bond Payment Fund, which the Trustee covenants to maintain and hold in trust separate and apart from other funds held by it so long as any Series 2021 Installment Payments remain unpaid. Except as directed in the Indenture, all Authority Revenues will be promptly deposited by the Trustee upon receipt thereof into the Bond Payment Fund; except that all moneys received by the Trustee and required under the Indenture to be deposited in the Redemption Fund will be promptly deposited therein. All Authority Revenues deposited with the Trustee will be held, disbursed, allocated and applied by the Trustee only as provided in the Indenture. The Trustee will also create and maintain an Interest Account and a Principal Account within the Bond Payment Fund.

Allocation of Authority Revenues. The Trustee will transfer from the Bond Payment Fund and deposit into the following respective accounts the following amounts in the following order of priority and at the following times, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Authority Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:

(a) Not later than the day preceding each date on which the interest on the Bonds become due and payable under the Indenture, the Trustee will deposit in the Interest Account that sum, if any, required to cause the aggregate amount on deposit in the Interest Account to be at least equal to the amount of interest becoming due and payable on such date on all Bonds then Outstanding.

(b) Not later than the day preceding each date on which the principal of the Bonds become due and payable under the Indenture, the Trustee will deposit in the Principal Account that sum, if any, required to cause the aggregate amount on deposit in the Principal Account to equal the principal amount of the Bonds coming due and payable on such date or subject to mandatory sinking fund redemption on such date.

Application of Interest Account. All amounts in the Interest Account will be used and withdrawn by the Trustee solely for the purpose of paying interest on the Bonds as it becomes due and payable (including accrued interest on any Bonds purchased or accelerated prior to maturity pursuant to the Indenture).

Application of Principal Account. All amounts in the Principal Account will be used and withdrawn by the Trustee solely to pay the principal amount of the Bonds at maturity, mandatory sinking fund redemption, purchase or acceleration; provided, however, that at any time prior to selection for redemption of any such Bonds, upon written direction of the Authority, the Trustee will apply such amounts to the purchase of Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as will be directed pursuant to a Request of the Authority, except that the purchase price (exclusive of accrued interest) may not exceed the redemption price then applicable to the Bonds.

Application of Redemption Fund. There will be established with the Trustee, when needed, a special fund designated as the "Redemption Fund." All amounts in the Redemption Fund will be used and withdrawn by the Trustee solely for the purpose of paying the principal of and accrued interest on the Bonds to be redeemed on any Redemption Date pursuant to the Indenture; provided, however, that at any time prior to selection for redemption of any such Bonds, upon written direction of the Authority, the Trustee will apply such amounts to the purchase of Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as will be directed pursuant to a Request of the Authority, except that the purchase price (exclusive of accrued interest) may not exceed the redemption price then applicable to the Bonds.

Investments. All moneys in any of the funds or accounts that are established with the Trustee pursuant to the Indenture will be invested by the Trustee solely in Permitted Investments, which will, as nearly as practicable, mature on or before the dates when such moneys are anticipated to be needed for disbursement. Such investments will be directed by the Authority pursuant to a Request of the Authority filed with the Trustee at least two (2) Business Days in advance of the making of such investments (which directions will be promptly confirmed to the Trustee in writing). In the absence of any such directions from the Authority, the Trustee will invest in Permitted Investments described in clause C(13) of the definition thereof. Obligations purchased as an investment of moneys in any fund will be deemed to be part of such fund or account.

All interest or gain derived from the investment of amounts in any of the funds or accounts established under the Indenture (except for interest or gain derived from the Permitted Investment described in clause (C)(8) of the definition thereof, which will be retained in such Permitted Investment) will be deposited in the Interest Account unless otherwise provided in the Indenture. For purposes of acquiring any investments under the Indenture, the Trustee may commingle funds (other than the Rebate Fund) held by it thereunder upon the Request of the Authority. The Trustee may act as principal or agent in the acquisition or disposition of any investment and may impose its customary charges therefor. The Trustee will incur no liability for losses, fees, taxes or other charges arising from any investments, reinvestments and liquidation of investments made pursuant to the Indenture.

The Trustee will furnish the Authority with periodic cash transaction statements which include detail for all investment transactions that are effected by the Trustee or brokers that are selected by the Authority. Upon the Authority's election, such statements will be delivered via the Trustee's online service and upon electing such service, paper statements will be provided only upon request. The Authority waives the right to receive brokerage confirmations of security transactions that are effected by the Trustee as they occur, to the extent permitted by law. The Authority further understands that trade confirmations for securities transactions that are effected by the Trustee will be available upon request and at no additional cost and other trade confirmations may be obtained from the applicable broker.

The Trustee or any of its affiliates may act as sponsor, advisor or manager in connection with any investments made by the Trustee under the Indenture.

The Authority will invest, or cause to be invested, all moneys in any fund or accounts established with the Trustee as provided in the Tax Certificate.

For investment purposes, the Trustee may commingle the funds and accounts that are established under the Indenture, other than the Rebate Fund, but will account for each separately. In making any valuations of investments thereunder, the Trustee may utilize and rely on computerized securities pricing services that may be available to the Trustee, including those that are available through the Trustee's accounting system.

Rebate Fund.

(a) Establishment. The Trustee will establish for the 2021A Bonds a separate fund designated the "Rebate Fund" when required in accordance with the Indenture. Absent an opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of interest with respect to the 2021A Bonds will not be adversely affected, the Authority will cause to be deposited in the Rebate Fund such amounts as are required to be deposited therein pursuant to the Indenture and the Tax Certificate. All money at any time deposited in the Rebate Fund will be held by the Trustee in trust for payment to the United States Treasury. All amounts on deposit in the Rebate Fund for the 2021A Bonds will be governed by the Indenture and the Tax Certificate for the 2021A Bonds, unless and to the extent that the Authority delivers to the Trustee an opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of interest with respect to the 2021A Bonds will not be adversely affected, if such requirements are not satisfied. Notwithstanding anything to the contrary in the Indenture or in the Tax Certificate, the Trustee: (i) will be deemed conclusively to have complied with the provisions thereof if it follows all Requests of the Authority; (ii) will have no liability or responsibility to enforce compliance by the Authority with the terms of the Tax Certificate; (iii) may rely conclusively on the Authority's calculations and determinations and certifications relating to rebate matters; and (iv) will have no responsibility to independently make any calculations or determinations or to review the Authority's calculations or determinations thereunder.

(i) Annual Computation. Within fifty-five (55) days of the end of each Bond Year (as such term is defined in the Tax Certificate), the Authority will calculate or cause to be calculated the amount of rebatable arbitrage, in accordance with Section 148(f)(2) of the Code and Section 1.148-3 of the Treasury Regulations (taking into account any applicable exceptions with respect to the computation of the rebatable arbitrage, described, if applicable, in the Tax Certificate (e.g., the temporary investments exceptions of Section 148(f)(4)(B) and the construction expenditures exception of Section 148(f)(4)(C) of the Code), and taking into account whether the election pursuant to Section 148(f)(4)(C)(vii) of the Code (the "1½% Penalty") has been made), for this purpose treating the last day of the applicable Bond Year as a computation date, within the meaning of Section 1.148-1(b) of the Treasury Regulations (the "Rebatable Arbitrage"). The Authority will obtain expert advice as to the amount of the Rebatable Arbitrage to comply with the Indenture.

(ii) Annual Transfer. Within fifty-five (55) days of the end of each Bond Year, upon the written request of the Authority, an amount will be deposited to the Rebate Fund by the Trustee from

any Authority Revenues legally available for such purpose (as specified by the Authority in the aforesaid written request), if and to the extent required so that the balance in the Rebate Fund will equal the amount of Rebatable Arbitrage so calculated in accordance with clause (i) above. In the event that immediately following the transfer required by the previous sentence, the amount then on deposit to the credit of the Rebate Fund exceeds the amount required to be on deposit therein, upon written request of the Authority, the Trustee will withdraw the excess from the Rebate Fund and then credit the excess to the Bond Payment Fund.

(iii) Payment to the Treasury. The Trustee will pay, as directed by Request of the Authority, to the United States Treasury, out of amounts in the Rebate Fund:

(A) Not later than sixty (60) days after the end of: (X) the fifth Bond Year; and (Y) each applicable fifth Bond Year thereafter, an amount equal to at least 90% of the Rebatable Arbitrage calculated as of the end of such Bond Year; and

(B) Not later than sixty (60) days after the payment of all the 2021A Bonds, an amount equal to 100% of the Rebatable Arbitrage calculated as of the end of such applicable Bond Year, and any income attributable to the Rebatable Arbitrage, computed in accordance with Section 148(f) of the Code and Section 1.148-3 of the Treasury Regulations.

In the event that, prior to the time of any payment required to be made from the Rebate Fund, the amount in the Rebate Fund is not sufficient to make such payment when such payment is due, the Authority will calculate or cause to be calculated the amount of such deficiency and deposit an amount received from any legally available source equal to such deficiency prior to the time such payment is due. Each payment required to be made pursuant to the Indenture will be made to the Internal Revenue Service Center, Ogden, Utah 84201 on or before the date on which such payment is due, and will be accompanied by Internal Revenue Service Form 8038-T (prepared by the Authority), or will be made in such other manner as provided under the Code.

(b) Disposition of Unexpended Funds. Any funds remaining in the Rebate Fund after redemption and payment of the 2021A Bonds and the payments described in subsection (a) above being made may be withdrawn by the Authority and utilized in any manner by the Authority.

(c) Survival of Defeasance. Notwithstanding anything in the Indenture to the contrary, the obligation to comply with the requirements therein will survive the defeasance or payment in full of the Bonds.

Application of Funds and Accounts When No Bonds are Outstanding. On the date on which all Bonds are retired under the Indenture or provision made therefor pursuant thereto and after payment of all amounts due the Trustee thereunder, all moneys then on deposit in any of the funds or accounts (other than the Rebate Fund) established with the Trustee pursuant to the Indenture will be withdrawn by the Trustee and paid to the Authority for distribution in accordance with the Installment Purchase Agreement.

PARTICULAR COVENANTS

Punctual Payment. The Authority will punctually pay or cause to be paid the principal and interest to become due in respect of all of the Bonds, in strict conformity with the terms of the Bonds and of the Indenture, according to the true intent and meaning thereof, but only out of Authority Revenues and other assets pledged for such payment as provided in the Indenture.

Extension of Payment of Bonds. The Authority will not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any claims for interest by the purchase of such Bonds or by any other arrangement, and in case the maturity of any of the Bonds or the time of payment of any such claims for interest will be extended, such Bonds or claims for interest will not be entitled, in case of any default under the Indenture, to the benefits of the Indenture, except subject to the prior payment

in full for the principal of all of the Bonds then Outstanding and of all claims for interest thereon which have not been so extended. Nothing in the Indenture will be deemed to limit the right of the Authority to issue Bonds for the purpose of refunding any Outstanding Bonds, and such issuance will not be deemed to constitute an extension of maturity of Bonds.

Against Encumbrances. The Authority will not create, or permit the creation of, any pledge, lien, charge or other encumbrances upon the Authority Revenues and other assets pledged or assigned under the Indenture while any of the Bonds are Outstanding, except the pledge and assignment created by the Indenture. Subject to this limitation, the Authority expressly reserves the right to enter into one or more other indentures for any of its corporate purposes, including other programs under the JPA Agreement, and reserves the right to issue other obligations for such purposes.

Power to Issue Bonds and Make Pledge and Assignment. The Authority is duly authorized pursuant to Law to issue the Bonds and to enter into the Indenture and to pledge and assign the Authority Revenues and other assets that are pledged and assigned under the Indenture in the manner and to the extent that is provided in the Indenture. The Bonds and the provisions of the Indenture are and will be the legal, valid and binding special obligations of the Authority in accordance with their terms, and the Authority and the Trustee will at all times, subject to the provisions of the Indenture and to the extent permitted by law, defend, preserve and protect said pledge and assignment of Authority Revenues and other assets and all the rights of the Bond Owners under the Indenture against all claims and demands of all persons whomsoever.

Accounting Records and Financial Statements. The Trustee will at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with corporate trust industry standards, in which complete and accurate entries will be made of all transactions that are undertaken by it relating to the proceeds of Bonds, the Authority Revenues and all funds and accounts that have been established by it pursuant to the Indenture. Such books of record and account will be available for inspection by the Authority and the District upon reasonable prior notice during business hours and under reasonable circumstances.

Tax Covenants. Notwithstanding any other provision of the Indenture or the Installment Purchase Agreement, absent an opinion of Bond Counsel that the exclusion from gross income of the interest on the 2021A Bonds will not be adversely affected for federal income tax purposes, the Authority covenants to comply with all applicable requirements of the Code that are necessary to preserve such exclusion from gross income with respect to the 2021A Bonds and specifically covenants, without limiting the generality of the foregoing, as follows:

(a) Private Activity. The Authority will take no action or refrain from taking any action, and the Authority will make no use of the proceeds of the 2021A Bonds or of any other moneys or property, which would cause the 2021A Bonds to be “private activity bonds” within the meaning of Section 141 of the Code;

(b) Arbitrage. The Authority will make no use of the proceeds of the 2021A Bonds or of any other amounts or property, regardless of the source, and the Authority will not take any action or refrain from taking any action, which will cause the 2021A Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Code;

(c) Federal Guarantee. The Authority will make no use of the proceeds of the 2021A Bonds, and the Authority will not take or omit to take any action, that would cause the 2021A Bonds to be “federally guaranteed” within the meaning of Section 149(b) of the Code;

(d) Information Reporting. The Authority will take or cause to be taken all necessary action to comply with the informational reporting requirement of Section 149(e) of the Code which is necessary to preserve the exclusion of interest on the 2021A Bonds pursuant to Section 103(a) of the Code;

(e) Hedge Bonds. The Authority will make no use of the proceeds of the 2021A Bonds or any other amounts or property, regardless of the source, and the Authority will not take any action or refrain from taking any action, that would cause the 2021A Bonds to be considered “hedge bonds” within the meaning of Section 149(g) of the Code unless the Authority takes all necessary action to assure compliance with the requirements of Section 149(g) of the Code to maintain the exclusion from gross income of interest on the 2021A Bonds for federal income tax purposes; and

(f) Miscellaneous. The Authority will not take any action or refrain from taking any action which is inconsistent with its expectations stated in the Tax Certificate executed by the Authority in connection with the issuance of the Bonds and will comply with the covenants and requirements that are stated therein and incorporated by reference in the Indenture.

The Indenture and the covenants that are set forth therein will not be applicable to, and nothing that is contained therein will be deemed to prevent the Authority from issuing revenue bonds or executing and delivering contracts that are payable on a parity with the Bonds, the interest with respect to which has been determined to be subject to federal income taxation, including but not limited to the 2021B Bonds.

Payments Under the Installment Purchase Agreement. The Authority will promptly collect all Series 2021 Installment Payments due from the District pursuant to the Installment Purchase Agreement and, subject to the provisions of the Indenture, will enforce and take all steps, actions and proceedings which the Authority or the Trustee determines to be reasonably necessary for the enforcement of all of the obligations of the District under the Installment Purchase Agreement.

The Authority will not enter into any amendments to the Installment Purchase Agreement except as permitted therein. The Trustee will give written consent only if: (a) such amendment, modification or termination will not materially adversely affect the interests of the Bond Owners; or (b) the Trustee first obtains the written consent of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding to such amendment, modification or termination.

Waiver of Laws. The Authority will not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of, any stay or extension law now or at any time later in force that may affect the covenants and agreements contained in the Indenture or in the Bonds, and all benefit or advantage of any such law or laws has been expressly waived by the Authority to the extent permitted by law.

Further Assurances. The Authority will make, execute and deliver any and all such further indentures, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Indenture and for the better assuring and confirming unto the Owners of the Bonds of the rights and benefits provided in the Indenture.

Eminent Domain. If all or any part of the 2021 Project is taken by eminent domain proceedings (or sold to a government entity that is threatening to exercise the power of eminent domain), the Net Proceeds therefrom will be applied in the manner that is specified in Section 6.16 of the Installment Purchase Agreement.

EVENTS OF DEFAULT AND REMEDIES OF BOND OWNERS

Events of Default. The following events are Events of Default under the Indenture:

(a) Default by the Authority in the due and punctual payment of the principal of any Bonds when and as the same becomes due and payable, whether at maturity as therein expressed, by proceedings for redemption, by acceleration, or otherwise.

(b) Default by the Authority in the due and punctual payment of any installment of interest on any Bonds when and as the same becomes due and payable.

(c) Default by the Authority in the observance of any of the other covenants, agreements or conditions on its part in the Indenture or in the Bonds contained, if such default has continued for a period of sixty (60) days after written notice thereof specifying such default and requiring the same to be remedied has been given to the Authority by the Trustee or by the Owners of not less than a majority in aggregate principal amount of Bonds Outstanding; provided, however, that if in the reasonable opinion of the Authority the default stated in the notice can be corrected, but not within such sixty (60) day period, and corrective action is instituted by the Authority within such sixty (60) day period and diligently pursued in good faith until the default is corrected, such default will not be an Event of Default under the Indenture.

(d) The Authority files 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 a court of competent jurisdiction approves a petition filed with or without the consent of the Authority seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction assumes custody or control of the Authority or of the whole or any substantial part of its property.

Remedies Upon Event of Default. If any Event of Default occurs, then, and in each and every such case during the continuance of such Event of Default, the Trustee may, and, at the written direction of the Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding, will, in each case, upon notice in writing to the Authority and the District, declare the principal of all of the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same will become and will be immediately due and payable, anything in the Indenture or in the Bonds contained to the contrary notwithstanding.

Nothing contained in the Indenture permits or requires the Trustee or the Authority to accelerate payments due under the Installment Purchase Agreement if the District, which is a party to such Installment Purchase Agreement, is not in default of its obligation thereunder.

Any such declaration is subject to the condition that if, at any time after such declaration, but before any judgment or decree for the payment of the moneys due has been obtained or entered, the Authority or the District deposits with the Trustee an amount that is sufficient to pay all the principal of and installments of interest on the Bonds the payment of which is overdue, with interest on such overdue principal at the rate borne by the respective Bonds to the extent permitted by law, and the reasonable charges and expenses of the Trustee, and any and all other Events of Default known to the Trustee (other than in the payment of principal of and interest on the Bonds that is due and payable solely by reason of such declaration) has been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate has been made therefor, then, and in every such case the Trustee has on behalf of the Owners of all of the Bonds, rescind and annul such declaration and its consequences and waive such Event of Default; but no such rescission and annulment will extend to or affect any subsequent Event of Default or impair or exhaust any right or power consequent thereon.

Application of Authority Revenues and Other Funds After Default. If an Event of Default occurs and is continuing, all Authority Revenues and any other funds then held or thereafter received by the Trustee under any of the provisions of the Indenture (other than amounts held in the Rebate Fund) will be applied by the Trustee as follows and in the following order:

(a) To the payment of any expenses that are necessary in the opinion of the Trustee to protect the interests of the Owners of the Bonds and to the payment of reasonable fees and expenses of the

Trustee (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under the Indenture; and

(b) To the payment of the principal of and interest then due on the Bonds (upon presentation of the Bonds to be paid, and stamping or otherwise noting thereon of the payment if only partially paid, or surrender thereof if fully paid) in accordance with the provisions of the Indenture, in the following order of priority: First: To the payment to the persons that are entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount that is available is not sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and Second: To the payment to the persons entitled thereto of the unpaid principal of any Bonds which has become due, whether at maturity or by acceleration or redemption, with interest on the overdue principal at the rate of five percent (5%) per annum, and, if the amount that is available is not sufficient to pay in full all the Bonds, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the persons entitled thereto, without any discrimination or preference; and Third: If there exists any remainder after the foregoing payments, such remainder will be paid to the Authority.

Trustee to Represent Bond Owners. The Trustee has been irrevocably appointed (and the successive respective Owners of the Bonds, by taking and holding the same, will be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney in fact of the Owners of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Owners under the provisions of the Bonds or the Indenture and applicable provisions of any other law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Bond Owners, the Trustee in its reasonable judgment may, and upon the written request of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, will proceed to protect or enforce its rights or the rights of such Owners by such appropriate action, suit, mandamus or other proceedings as it deems most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained in the Indenture, or in aid of the execution of any power therein granted, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Owners under the Bonds or the Indenture or any other law; and upon instituting such proceeding, the Trustee will be entitled, as a matter of right, to the appointment of a receiver of the Authority Revenues and other assets pledged under the Indenture, pending such proceedings. All rights of action under the Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee will be brought in the name of the Trustee for the benefit and protection of all the Owners of such Bonds, subject to the provisions of the Indenture.

Bond Owners' Direction of Proceedings. Anything in the Indenture to the contrary notwithstanding, the Owners of a majority in aggregate principal amount of the Bonds then Outstanding have the right, by an instrument or concurrent instruments in writing that are executed and delivered to the Trustee, and upon indemnification of the Trustee to its reasonable satisfaction to direct the method of conduct in all remedial proceedings taken by the Trustee under the Indenture, provided that such direction will not be otherwise than in accordance with law and the provisions of the Indenture, and that the Trustee has the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bond Owners who are not parties to such direction.

Suit by Owners. No Owner of any Bonds has the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture, the Installment Purchase Agreement, the JPA Agreement or any other applicable law with respect to such Bonds, unless: (a) such Owners has given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds then Outstanding has made written request upon the Trustee to exercise the powers granted in the Indenture or to institute such suit,

action or proceeding in its own name; (c) such Owner or Owners has tendered to the Trustee reasonable indemnity against the costs, claims, expenses and liabilities to be incurred in compliance with such request; (d) the Trustee has failed to comply with such request for a period of sixty (60) days after such written request has been received by, and said tender of indemnity has been made to, the Trustee; and (e) no direction which is inconsistent with such written request has been given to the Trustee during such sixty (60) day period by the Owners of a majority in aggregate principal amount of the Bonds then Outstanding.

Such notification, request, tender of indemnity and refusal or omission have been declared, in every case, to be conditions precedent to the exercise by any Owner of Bonds of any remedy under the Indenture or under law; it being understood and intended that no one or more Owners of Bonds have any right in any manner whatever by their action to affect, disturb or prejudice the security of the Indenture or the rights of any other Owners of Bonds (it being understood that the Trustee does not have an affirmative duty to ascertain whether or not such actions or forbearances are unduly prejudicial to such Owners), or to enforce any right under the Bonds, the Indenture, the Installment Purchase Agreement, the JPA Agreement or other applicable law with respect to the Bonds, except in the manner provided in the Indenture, and that all proceedings at law or in equity to enforce any such right will be instituted, had and maintained in the manner therein provided and for the benefit and protection of all Owners of the Outstanding Bonds, subject to the provisions of the Indenture.

Absolute Obligation of the Authority. Nothing in the Indenture or in the Bonds will affect or impair the obligation of the Authority, which is absolute and unconditional, to pay the principal of and interest on the Bonds to the respective Owners of the Bonds at their respective dates of maturity, or upon call for redemption, as provided in the Indenture, but only out of the Authority Revenues and other assets therein pledged therefor, or affect or impair the right of such Owners, which is also absolute and unconditional, to enforce such payment by virtue of the contract embodied in the Bonds.

Remedies Not Exclusive. No remedy in the Indenture conferred upon or reserved to the Trustee or to the Owners of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, is cumulative and in addition to any other remedy given thereunder or now or later existing at law or in equity or otherwise.

No Waiver of Default. No delay or omission of the Trustee or of any Owner of the Bonds to exercise any right or power arising upon the occurrence of any Event of Default will impair any such right or power or will be construed to be a waiver of any such Event of Default or an acquiescence therein.

THE TRUSTEE

Duties, Immunities and Liabilities of Trustee.

(a) The Trustee will, prior to an Event of Default, and after the curing of all Events of Default which may have occurred, perform such duties and only such duties as are expressly and specifically set forth in the Indenture, and no implied covenants or duties will be read into the Indenture against the Trustee. The Trustee will, during the existence of any Event of Default (which has not been cured), exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs.

(b) The Authority may remove the Trustee at any time, unless an Event of Default has occurred and is continuing, and will remove the Trustee if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time the Trustee ceases to be eligible in accordance with subsection (e) below, or becomes incapable of acting, or is adjudged a bankrupt or insolvent, or a receiver of the Trustee or its property is appointed, or any public officer

takes control or charge of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Trustee. The Authority will promptly appoint a successor Trustee by an instrument in writing.

(c) The Trustee may at any time resign by giving written notice of such resignation to the Authority and by giving the Bond Owners notice of such resignation by mail at the addresses shown on the Registration Books. Upon receiving such notice of resignation, the Authority will promptly appoint a successor Trustee by an instrument in writing.

(d) Any removal or resignation of the Trustee and appointment of a successor Trustee will become effective upon acceptance of appointment by the successor Trustee. If no successor Trustee has been appointed and have accepted appointment within forty-five (45) days of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee or any Bond Owner (on behalf of himself and all other Bond Owners) may, at the Authority's expense, petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee. Any successor Trustee that is appointed under the Indenture will signify its acceptance of such appointment by executing and delivering to the Authority and to its predecessor Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act, deed or conveyance, will become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee in the Indenture; but, nevertheless at the Request of the Authority or the request of the successor Trustee, such predecessor Trustee will execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all of the right, title and interest of such predecessor Trustee in and to any property held by it under the Indenture and will pay over, transfer, assign and deliver to the successor Trustee any money or other property that is subject to the trusts and conditions set forth in the Indenture. Upon request of the successor Trustee, the Authority will execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Trustee as provided in the Indenture, the Authority will mail or cause the successor trustee to mail a notice of the succession of such Trustee to the trusts under the Indenture to the Rating Agency and to the Bond Owners at the addresses shown on the Registration Books. If the Authority fails to mail such notice within fifteen (15) days after acceptance of appointment by the successor Trustee, the successor Trustee will cause such notice to be mailed at the expense of the Authority.

Any Trustee that is appointed under the provisions of the Indenture in succession to the Trustee will be a trust company, banking association or bank having the powers of a trust company, having a combined capital and surplus of at least Fifty Million Dollars (\$50,000,000), and subject to supervision or examination for federal or state authority. If such bank, banking association or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority that is referred to above, then for the purpose of the Indenture, the combined capital and surplus of such trust company, banking association or bank will be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Trustee ceases to be eligible in accordance with the provisions of the Indenture, the Trustee will resign promptly in the manner and with the effect specified in the Indenture.

Merger or Consolidation. Any trust company, banking association or bank into which the Trustee may be merged or converted or with which it may be consolidated, any trust company, banking association or bank resulting from any merger, conversion or consolidation to which it will be a party or any trust company, banking association or bank to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided that such trust company, banking association or bank will be eligible under the Indenture, will be the successor to such Trustee, without the execution or filing of any paper or any further act, anything in the Indenture to the contrary notwithstanding.

Liability of Trustee.

(a) The recitals of facts in the Indenture and in the Bonds will be taken as statements of the Authority, and the Trustee will not assume responsibility for the correctness of the same, or make any representations as to the validity or sufficiency of the Indenture, the Bonds or the Installment Purchase Agreement, nor will the Trustee incur any responsibility in respect thereof, other than as expressly stated in the Indenture in connection with the respective duties or obligations in the Indenture or in the Bonds assigned to or imposed upon it. The Trustee will, however, be responsible for its representations contained in its certificate of authentication on the Bonds. The Trustee will not be liable in connection with the performance of its duties under the Indenture, except for its own negligence or willful misconduct. The Trustee may become the Owner of Bonds with the same rights it would have if it were not Trustee, and, to the extent permitted by law, may act as depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Bond Owners, whether or not such committee will represent the Owners of a majority in principal amount of the Bonds then Outstanding.

(b) The Trustee will not be liable for any error of judgment that is made in good faith by a responsible officer, unless it is proved that the Trustee was negligent in ascertaining the pertinent facts.

(c) The Trustee will not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of not less than a majority (or such other percentage provided for in the Indenture) in aggregate principal amount of the Bonds at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under the Indenture.

(d) The Trustee will not be liable for any action taken by it in good faith and believed by it to be authorized or within the rights or powers conferred upon it by the Indenture.

(e) The Trustee will not be deemed to have knowledge of any default or Event of Default under the Indenture or under the Installment Purchase Agreement or any other event which, with the passage of time, the giving of notice, or both, would constitute an Event of Default under the Indenture or under the Installment Purchase Agreement unless and until a Responsible Officer of the Trustee has actual knowledge of such event or the Trustee has been notified in writing, in accordance with the Indenture, of such event by the Authority or the Owners of not less than twenty-five percent (25%) of the Bonds then Outstanding. Except as otherwise expressly provided in the Indenture, the Trustee is not bound to ascertain or inquire as to the performance or observance by the Authority or the District of any of the terms, conditions, covenants or agreements therein, or under the Installment Purchase Agreement, of any of the documents executed in connection with the Bonds or as to the existence of an Event of Default under the Installment Purchase Agreement or an event which would, with the giving of notice, the passage of time, or both, constitute an Event of Default under the Installment Purchase Agreement. The Trustee is not responsible for the validity, effectiveness or priority of any collateral that is given to or held by it.

(f) No provision of the Indenture requires the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties thereunder, or in the exercise of any of its rights or powers.

(g) The Trustee is under no obligation to exercise any of the rights or powers that are vested in it by the Indenture at the request or direction of Owners pursuant to the Indenture unless such Owners have offered to the Trustee reasonable indemnity satisfactory to it against the costs, claims, expenses and liabilities which might be incurred by it in compliance with such request or direction. No permissive power, right or remedy that is conferred upon the Trustee under the Indenture will be construed to impose a duty to exercise such power, right or remedy.

(h) Whether or not expressly so provided in the Indenture, every provision of the Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee is subject to the provisions of the Indenture.

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

(j) The immunities that are extended to the Trustee also extend to its directors, officers, employees and agents.

(k) The Trustee may execute any of the trusts or powers of the Indenture and perform any of its duties through attorneys, agents and receivers and is not answerable for the conduct of the same if appointed by it with reasonable care.

(l) The Trustee will not be considered in breach of or in default in its obligations under the Indenture or progress in respect thereto in the event of enforced delay in the performance of such obligations due to unforeseeable causes beyond its control and without its fault or negligence, including, but not limited to, acts of God or of the public enemy or terrorists, acts of a government, acts of the other party, fires, floods, epidemics, quarantine restrictions, strikes, freight embargoes, earthquakes, explosions, mob violence, riots, inability to procure or general sabotage or rationing of labor, equipment, facilities, sources of energy, material or supplies in the open market, litigation or arbitration involving a party or others relating to zoning or other governmental action or inaction pertaining to the 2021 Project, malicious mischief, condemnation and unusually severe weather or delays of suppliers or subcontractors due to such causes or any similar event and/or occurrences beyond the control of the Trustee.

(m) The Trustee agrees to accept and act upon instructions or directions pursuant to the Indenture sent by unsecured electronic mail, facsimile transmission or other similar unsecured electronic methods, provided, however, that, for purposes of the Indenture, an electronic mail message does not constitute a notice, request or other communication thereunder but rather the portable document format or similar attachment attached to such electronic mail message does constitute a notice, request or other communication thereunder; and provided further that the Trustee has 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 will be amended and replaced whenever a person is to be added or deleted from the listing. If the Authority elects to give the Trustee electronic mail or facsimile instructions (or instructions by a similar electronic method) and the Trustee in its reasonable judgment elects to act upon such instructions, the Trustee's understanding of such instructions will be deemed controlling. The Trustee will not be liable for any losses, costs, claims or expenses arising directly or indirectly from the Trustee's reliance upon and compliance with such instructions notwithstanding the fact that such instructions conflict or are inconsistent with a subsequent written instruction. The Authority agrees to assume all risks arising out of the use of such electronic methods to submit instructions and directions to the Trustee, including without limitation the risk of the Trustee acting on unauthorized instructions, and the risk of interception and misuse by third parties.

(n) The Trustee is not concerned with or accountable to anyone for the subsequent use or application of any moneys which will be released or withdrawn in accordance with the provisions of the Indenture.

(o) The permissive right of the Trustee to do things enumerated in the Indenture will not be construed as a duty and it is not answerable for other than its negligence or willful misconduct.

(p) In no event will the Trustee be responsible or liable for special, indirect, punitive or consequential loss or damage of any kind whatsoever (including, but not limited to, loss of profit) irrespective

of whether the Trustee has been advised of the likelihood of such loss or damage and regardless of the form of action.

Right to Rely on Documents. The Trustee is protected in acting upon any notice, resolution, requisition, request, consent, order, certificate, report, opinion, notes, direction, facsimile transmission, electronic mail or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Trustee may consult with counsel of its selection with regard to legal questions, and the opinion of such counsel will be full and complete authorization and protection in respect of any action taken or suffered by it under the Indenture in good faith and in accordance therewith.

The Trustee will not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document, but the Trustee may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee determines to make such further inquiry or investigation, it will be entitled to examine the books, records and premises of the Authority, personally or by agent or attorney at the sole cost of the Authority and will incur no liability or additional liability of any kind by reason of such inquiry or investigation.

The Trustee may treat the Owners of the Bonds appearing in the Trustee's Registration Books as the absolute owners of the Bonds for all purposes and the Trustee will not be affected by any notice to the contrary.

Whenever in the administration of the trusts imposed upon it by the Indenture the Trustee deems it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Indenture, such matter (unless other evidence in respect thereof is specifically prescribed therein) may be deemed to be conclusively proved and established by a Certificate, Request or Requisition of the Authority, and such Certificate, Request or Requisition will be full warrant to the Trustee for any action taken or suffered in good faith under the provisions of the Indenture in reliance upon such Certificate, Request or Requisition, but in its reasonable judgment the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as it may deem reasonable.

Preservation and Inspection of Documents. All documents that are received by the Trustee under the provisions of the Indenture will be retained in its possession and will be subject at all reasonable times to the inspection of the Authority, the District and any Bond Owner, and their agents and representatives duly authorized in writing, at reasonable hours and under reasonable conditions.

Compensation and Indemnification. The Authority will pay to the Trustee from time to time compensation previously agreed upon in writing for all services that are rendered under the Indenture, and also all reasonable expenses, charges, legal and consulting fees and other disbursements and those of their attorneys, agents and employees, incurred in and about the performance of their powers and duties under the Indenture.

The Authority will indemnify, defend and hold harmless the Trustee, its officers, employees, directors and agents from and against any loss, costs, claims, liability or expense (including fees and expenses of its attorneys and advisors) incurred without negligence or willful misconduct on its part, arising out of or in connection with the execution of the Indenture, acceptance or administration of this trust, including costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers under the Indenture. The rights of the Trustee and the obligations of the Authority under the Indenture will survive removal or resignation of the Trustee thereunder or the discharge of the Bonds and the Indenture.

MODIFICATION OR AMENDMENT OF THE INDENTURE

Amendments Permitted.

(a) The Indenture and the rights and obligations of the Authority, the Owners of the Bonds and the Trustee may be modified or amended from time to time and at any time by a written indenture or indentures supplemental thereto, which the Authority and the Trustee may enter into when the written consent of the Owners of a majority in aggregate principal amount of all Bonds then Outstanding, exclusive of Bonds that are disqualified as provided in the Indenture, has been filed with the Trustee. No such modification or amendment may: (1) extend the fixed maturity of any Bonds, or reduce the amount of principal thereof or premium (if any) thereon, or extend the time of payment, or change the rate of interest or the method of computing the rate of interest thereon, or extend the time of payment of interest thereon, without the consent of the Owner of each Bond so affected; or (2) reduce the aforesaid percentage of Bonds the consent of the Owners of which is required to affect any such modification or amendment, or permit the creation of any lien on the Authority Revenues and other assets pledged under the Indenture prior to or on a parity with the lien that is created by the Indenture except as permitted therein, or deprive the Owners of the Bonds of the lien created by the Indenture on such Authority Revenues and other assets except as permitted therein, without the consent of the Owners of all of the Bonds then Outstanding. It is not necessary for the consent of the Bond Owners to approve the particular form of any Supplemental Indenture, but it is sufficient if such consent approves the substance thereof. Promptly after the execution by the Authority and the Trustee of any Supplemental Indenture pursuant to the Indenture, the Trustee will mail a notice, setting forth in general terms the substance of such Supplemental Indenture, to each Rating Agency and the Owners of the Bonds at the respective addresses shown on the Registration Books. Notice of proposed execution will be prepared by the Authority. Any failure to give such notice, or any defect therein, will not, however, in any way impair or affect the validity of any such Supplemental Indenture.

(b) The Indenture and the rights and obligations of the Authority, the Trustee and the Owners of the Bonds may also be modified or amended from time to time and at any time by a written Supplemental Indenture, which the Authority and the Trustee may enter into without the consent of any Bond Owners, provided that the Trustee receives an opinion of Bond Counsel to the effect that the provisions of such Supplemental Indenture will not materially adversely affect the interests of the Owners of the Outstanding Bonds, including, without limitation, for any one or more of the following purposes:

(1) to add to the covenants and agreements of the Authority contained in the Indenture other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power in the Indenture reserved to or conferred upon the Authority;

(2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Indenture, or in regard to matters or questions arising under the Indenture, as the Authority may deem necessary or desirable;

(3) to modify, amend or supplement the Indenture in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute thereunder in effect, and to add such other terms conditions and provisions as may be permitted by said act or similar federal statute; and

(4) to modify, amend or supplement the Indenture in such manner as to cause interest on the Bonds to remain excludable from gross income under the Code.

(c) The Trustee may in its reasonable judgment, but will not be obligated to, enter into any such Supplemental Indenture that is authorized by subsections (a) or (b) above which materially adversely affects the Trustee's own rights, duties or immunities under the Indenture or otherwise.

(d) Prior to the Trustee entering into any Supplemental Indenture under the Indenture, there will be delivered to the Trustee an opinion of Bond Counsel stating, in substance, that such Supplemental Indenture has been adopted in compliance with the requirements of the Indenture and that the adoption of such Supplemental Indenture will not, in and of itself, adversely affect the exclusion of interest on the 2021A Bonds from federal income taxation and from state income taxation with respect to the 2021 Bonds.

Effect of Supplemental Indenture. Upon the execution of any Supplemental Indenture pursuant to the Indenture, the Indenture will be deemed to be modified and amended in accordance with the Supplemental Indenture, and the respective rights, duties and obligations under the Indenture of the Authority, the Trustee and all Owners of Bonds Outstanding will thereafter be determined, exercised and enforced under the Supplemental Indenture subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Indenture will be deemed to be part of the terms and conditions of the Indenture for any and all purposes.

Endorsement of Bonds; Preparation of New Bonds. Bonds delivered after the execution of any Supplemental Indenture pursuant to the Indenture may, and if the Trustee so determines will, bear a notation by endorsement or otherwise in form approved by the Authority and the Trustee as to any modification or amendment provided for in such Supplemental Indenture, and, in that case, upon demand on the Owner of any Bonds Outstanding at the time of such execution and presentation of his or her Bonds for the purpose at the Office of the Trustee or at such additional offices as the Trustee may select and designate for that purpose, a suitable notation will be made on such Bonds. If the Supplemental Indenture so provides, new Bonds so modified as to conform, in the opinion of the Authority and the Trustee, to any modification or amendment that is contained in such Supplemental Indenture, will be prepared and executed by the Authority and authenticated by the Trustee, and upon demand on the Owners of any Bonds then Outstanding will be exchanged at the Office of the Trustee, without cost to any Bond Owner, for Bonds then Outstanding, upon surrender for cancellation of such Bonds, in equal aggregate principal amount of the same maturity.

Amendment of Particular Bonds. The provisions of the Indenture will not prevent any Bond Owner from accepting any amendment as to the particular Bonds held by such Bond Owner.

DEFEASANCE

Discharge of Indenture. The Bonds may be paid by the Authority in any of the following ways, provided that the Authority also pays or causes to be paid any other sums payable under the Indenture by the Authority: (a) by paying or causing to be paid the principal of and interest and redemption premiums (if any) on the Bonds, as and when the same become due and payable; (b) by depositing with the Trustee, in trust, at or before maturity, money or Federal Securities in the necessary amount (as provided in the Indenture) to pay or redeem all Bonds then Outstanding; or (c) by delivering to the Trustee, for cancellation by it, all of the Bonds then Outstanding.

If the Authority also pays or causes to be paid all other sums that are payable under the Indenture by the Authority, then and in that case, at the election of the Authority (as evidenced by a Certificate of the Authority, filed with the Trustee, signifying the intention of the Authority to discharge all such indebtedness and the Indenture), and notwithstanding that any Bonds will not have been surrendered for payment, the Indenture and the pledge of Authority Revenues and other assets under the Indenture and all covenants, agreements and other obligations of the Authority under the Indenture will cease, terminate, become void and be completely discharged and satisfied. In such event, upon the Request of the Authority, the Trustee will execute and deliver to the Authority all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee will pay over, transfer, assign or deliver all moneys or securities or other property held by it pursuant to the Indenture which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption to the Authority.

Discharge of Liability on Bonds. Upon the deposit with the Trustee, in trust, at or before maturity, of money or securities in the necessary amount (as provided in the Indenture) to pay or redeem any Outstanding Bonds (whether upon or prior to the maturity or the redemption date of such Bonds), provided that, if such Outstanding Bonds are to be redeemed prior to maturity, notice of such redemption will have been given as provided in the Indenture or provisions satisfactory to the Trustee will have been made for the giving of such notice, then all liability of the Authority in respect of such Bonds will cease, terminate and be completely discharged, and the Owners thereof will thereafter be entitled only to payment out of such money or securities that are deposited with the Trustee as aforesaid for their payment, subject however, to the provisions of the Indenture.

The Authority may at any time surrender to the Trustee for cancellation by it any Bonds that were previously issued and delivered, which the Authority may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, will be deemed to be paid and retired.

Deposit of Money or Securities with Trustee. Whenever in the Indenture it is provided or permitted that there be deposited with or held in trust by the Trustee money or securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to the Indenture and will be:

(a) lawful money of the United States of America in an amount that is equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption have been given as provided in the Indenture or provisions satisfactory to the Trustee have been made for the giving of such notice, the amount to be deposited or held will be the principal amount of such Bonds and all unpaid interest and premium, if any, thereon to the redemption date; or

(b) Federal Securities the principal of and interest on which when due will, in the written opinion of an Independent Certified Public Accountant filed with the Authority and the Trustee, provide money in an amount that is sufficient to pay the principal of and all unpaid interest to maturity, or to the redemption date (with premium, if any), as the case may be, on the Bonds to be paid or redeemed, as such principal, interest and premium, if any, become due, provided that in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption have been given as provided in the Indenture or provision satisfactory to the Trustee have been made for the giving of such notice;

provided, in each case, that: (i) the Trustee will have been irrevocably instructed (by the terms of the Indenture or by Request of the Authority) to apply such money to the payment of such principal, interest and premium, if any, with respect to such Bonds; and (ii) the Authority will have delivered to the Trustee an opinion of Bond Counsel addressed to the Authority and the Trustee to the effect that such Bonds have been discharged in accordance with the Indenture (which opinion may rely upon and assume the accuracy of the Independent Certified Public Accountant's opinion referred to above).

Payment of Bonds After Discharge of Indenture. Notwithstanding any provisions of the Indenture, any moneys which are held by the Trustee in trust for the payment of the principal of, or interest on, any Bonds and which remain unclaimed for two (2) years after the principal of all of the Bonds has become due and payable (whether at maturity or upon call for redemption or by acceleration as provided in the Indenture), if such moneys were so held at such date, or two (2) years after the date of deposit of such moneys if deposited after said date when all of the Bonds became due and payable, will be repaid to the Authority free from the trusts created by the Indenture upon receipt of an indemnification agreement that is acceptable to the Authority and the Trustee indemnifying the Trustee with respect to claims of Owners of Bonds which have not yet been paid, and all liability of the Trustee with respect to such moneys will thereupon cease; provided, however, that before the repayment of such moneys to the Authority as aforesaid, the Trustee will at the written direction of the Authority (at the cost of the Authority) first mail to the Owners of Bonds which have not yet been paid, at the addresses shown on the Registration Books, a notice, in such form as may be deemed appropriate by the

Trustee with respect to the Bonds so payable and not presented and with respect to the provisions relating to the repayment to the Authority of the moneys held for the payment thereof.

MISCELLANEOUS

Liability of Authority Limited to Authority Revenues. Notwithstanding anything in the Indenture or the Bonds, the Authority is not required to advance any moneys derived from any source other than the Authority Revenues and other moneys pledged under the Indenture for any of the purposes of the Indenture, whether for the payment of the principal of or interest on the Bonds or for any other purpose of the Indenture. Nevertheless, the Authority may, but is not required to, advance for any of the purposes of the Indenture any funds of the Authority which may be made available to it for such purposes.

The Bonds are not a debt of the members of the Authority, the State or any of its political subdivisions (other than the Authority) and neither the members of the Authority, said State nor any of its political subdivisions (other than the Authority) is liable thereon. The District has no liability or obligation in the Indenture except with respect to Series 2021 Installment Payments payable under the Installment Purchase Agreement.

Successor Is Deemed Included in All References to Predecessor. Whenever in the Indenture either the Authority or the Trustee is named or referred to, such reference is deemed to include the successors or assigns thereof, and all covenants and agreements in the Indenture by or on behalf of the Authority or the Trustee will bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

Limitation of Rights to Parties and Bond Owners. Nothing in the Indenture or in the Bonds, express or implied, is intended or will be construed to give to any person other than the Authority, the Trustee, the District and the Owners of the Bonds, any legal or equitable right, remedy or claim under or in respect of the Indenture or any covenant, condition or provision contained in the Indenture or the Bonds; and all such covenants, conditions and provisions are and will be held to be for the sole and exclusive benefit of the Authority, the Trustee, the District and the Owners of the Bonds.

Waiver of Notice; Requirement of Mailed Notice. Whenever in the Indenture the giving of notice by mail or otherwise is required, the giving of such notice may be waived in writing by the person who is entitled to receive such notice, and in any such case the giving or receipt of such notice will not be a condition precedent to the validity of any action taken in reliance upon such waiver. Whenever in the Indenture any notice is required to be given by mail, such requirement will be satisfied by the deposit of such notice in the United States mail, postage prepaid, by first class mail.

Destruction of Bonds. Whenever in the Indenture provision is made for the cancellation by the Trustee and the delivery to the Authority of any Bonds, the Trustee will destroy such Bonds in accordance with its then customary procedure as may be allowed by law and deliver a certificate of such destruction to the Authority.

Severability of Invalid Provisions. If any one or more of the provisions contained in the Indenture or in the Bonds will for any reason be held to be invalid, illegal or unenforceable in any respect, then such provision or provisions will be deemed severable from the remaining provisions contained in the Indenture and such invalidity, illegality or unenforceability will not affect any other provision of the Indenture, and the Indenture will be construed as if such invalid or illegal or unenforceable provision had never been contained in the Indenture. The Authority has declared that it would have entered into the Indenture and each and every other Section, paragraph, sentence, clause or phrase of the Indenture and authorized the issuance of the Bonds pursuant thereto irrespective of the fact that any one or more Sections, paragraphs, sentences, clauses or phrases of the Indenture may be held illegal, invalid or unenforceable.

Evidence of Rights of Bond Owners. Any request, consent or other instrument that is required or permitted by the Indenture to be signed and executed by Bond Owners may be in any number of concurrent instruments of substantially similar tenor and will be signed or executed by such Bond Owners in person or by an agent or agents duly appointed in writing. Proof of the execution of any such request, consent or other instrument or of a writing appointing any such agent, or of the holding by any person of Bonds transferable by delivery, is sufficient for any purpose of the Indenture and is conclusive in favor of the Trustee and the Authority if made in the manner provided in the Indenture.

The fact and date of the execution by any person of any such request, consent or other instrument or writing may be proved by the certificate of any notary public or other officer of any jurisdiction, authorized by the laws thereof to take acknowledgments of deeds, certifying that the person signing such request, consent or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer.

The Ownership of Bonds will be proved by the Registration Books. Any request, consent, or other instrument or writing of the Owner of any Bond will bind every future Owner of the same Bond and the Owner of every Bond issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Trustee or the Authority in accordance therewith or reliance thereon.

Disqualified Bonds. In determining whether the Owners of the requisite aggregate principal amount of Bonds have concurred in any demand, request, direction, consent or waiver under the Indenture, Bonds which are known by the Trustee to be owned or held by or for the account of the Authority, or by any other obligor on the Bonds, or by any person that is directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Authority or any other obligor on the Bonds, will be disregarded and deemed not to be Outstanding for the purpose of any such determination. Bonds so owned which have been pledged in good faith may be regarded as Outstanding for the purposes of the Indenture if the pledgee establishes to the satisfaction of the Trustee the pledgee's right to vote such Bonds and that the pledgee is not a person that is directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Authority or any other obligor on the Bonds. In case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel will be full protection to the Trustee. Upon request, the Authority will certify to the Trustee those Bonds that are disqualified pursuant to the Indenture and the Trustee may conclusively rely on such certificate.

Money Held for Particular Bonds. The money held by the Trustee for the payment of the interest, principal or premium due on any date with respect to particular Bonds (or portions of Bonds in the case of registered Bonds redeemed in part only) will, on and after such date and pending such payment, be set aside on its books and held in trust by it for the Owners of the Bonds entitled thereto, subject, however, to the provisions of the Indenture, but without any liability for interest thereon.

Funds and Accounts. Any fund or account that is required by the Indenture to be established and maintained by the Trustee may be established and maintained in the accounting records of the Trustee, either as a fund or an account, and may, for the purposes of such records, any audits thereof and any reports or statements with respect thereto, be treated either as a fund or as an account; but all such records with respect to all such funds and accounts will at all times be maintained in accordance with corporate trust industry standards to the extent practicable, and with due regard for the requirements of the Indenture and for the protection of the security of the Bonds and the rights of every Owner thereof.

Waiver of Personal Liability. No member, officer, agent, employee, consultant or attorney of the Authority or the District will be individually or personally liable for the payment of the principal of or premium or interest on the Bonds or subject to any personal liability or accountability by reason of the issuance thereof; but nothing contained in the Indenture will relieve any such member, officer, agent, employee, consultant or attorney from the performance of any official duty provided by law or by the Indenture.

CUSIP Numbers. Neither the Trustee nor the Authority is liable for any defect or inaccuracy in the CUSIP number that appears on any Bond or in any redemption notice. The Trustee may, in its reasonable judgment, include in any redemption notice a statement to the effect that the CUSIP numbers on the Bonds have been assigned by an independent service and are included in such notice solely for the convenience of the Bondholders and that neither the Authority nor the Trustee is liable for any inaccuracies in such numbers. The Authority will promptly notify the Trustee in writing of any change in the CUSIP numbers.

Choice of Law. The Indenture is governed by the laws of the State of California.

Notice to Rating Agency. The Trustee will provide the Rating Agency with written notice of each amendment to the Indenture and a copy thereof at least fifteen (15) days in advance of its execution. The Trustee makes this covenant as a matter of courtesy and accommodation only and is not liable to any Person for any failure to comply therewith.

U.S.A. Patriot Act. The parties to the Indenture acknowledge that in accordance with Section 326 of the U.S.A. Patriot Act, the Trustee, like all financial institutions and in order to help fight the funding of terrorism and money laundering, is required to obtain, verify, and record information that identifies each person or legal entity that establishes a relationship or opens an account with the Trustee. The parties to the Indenture agree that they will provide the Trustee with such information as it may request in order for the Trustee to satisfy the requirements of the U.S.A. Patriot Act.

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APPENDIX D

FORMS OF OPINION OF BOND COUNSEL

Upon issuance of the 2021 Bonds, Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, proposes to render its final approving opinions in substantially the following form:

August __, 2021

Panoche Financing Authority
52027 W Althea Ave
Firebaugh, California 93622

Re: Panoche Financing Authority Revenue Bonds (Panoche Water District), Series 2021A and Series 2021B (Taxable)

Members of the Board of Directors:

We have acted as Bond Counsel to the Panoche Financing Authority (the "Authority") in connection with the issuance of \$_____ aggregate principal amount of Revenue Bonds (Panoche Water District), Series 2021A (the "2021A Bonds") and \$_____ aggregate principal amount of Revenue Bonds (Panoche Water District), Series 2021B (Taxable) (the "2021B Bonds" and, together with the 2021A Bonds, the "2021 Bonds"). The 2021A Bonds have been issued by the Authority pursuant to the terms of the Indenture of Trust, dated as of May 1, 2021 (the "Indenture"), by and between the Authority and U.S. Bank National Association, as trustee (the "Trustee").

The 2021 Bonds are limited obligations of the Authority payable from Revenues (as such term is defined in the Indenture), consisting of payments (the "Series 2021 Installment Payments") to be made by the Panoche Water District (the "District") to the Authority pursuant to an Installment Purchase Agreement, dated as of May 1, 2021 (the "Installment Purchase Agreement"), by and between the District and the Authority.

In connection with our representation we have examined a certified copy of the proceedings relating to the 2021A Bonds. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigations.

Based upon the foregoing and after examination of such questions of law as we have deemed relevant in the circumstances, but subject to the limitations set forth herein, we are of the opinion that:

1. The proceedings of the Authority show lawful authority for the issuance by the Authority of the 2021 Bonds under the laws of the State of California now in force, and the Indenture has been duly authorized, executed and delivered by the Authority, and, assuming due authorization, execution and delivery by the Trustee, as appropriate, the 2021 Bonds and the Indenture are valid and binding obligations of the Authority enforceable against the Authority in accordance with their respective terms.

2. The obligation of the Authority to make the payments of principal and interest on the 2021 Bonds from Revenues (as such term is defined in the Indenture) is an enforceable obligation of the Authority and does not constitute an indebtedness of the Authority in contravention of any constitutional or statutory debt limit or restriction.

3. Under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest

(and original issue discount) on the 2021A Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals.

4. Interest on the 2021 Bonds is exempt from State of California personal income tax.

5. The excess of the stated redemption price at maturity over the issue price of a 2021A Bond (the first price at which a substantial amount of the 2021A Bond of a maturity is to be sold to the public) constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a 2021A Bond Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a 2021A Bond Owner will increase the Owner's basis in the applicable 2021A Bond. Original issue discount that accrues to the 2021A Bond Owner is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and is exempt from State of California personal income tax.

6. The amount by which a 2021A Bond Owner's original basis for determining gain or loss on sale or exchange of the applicable 2021A Bond (generally the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes "amortizable bond premium" which must be amortized under Section 171 of the Internal Revenue Code of 1986, as amended (the "Code"); such amortizable bond premium reduces the 2021A Bond Owner's basis in the applicable 2021A Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of bond premium may result in a 2021A Bond Owner realizing a taxable gain when a 2021A Bond is sold by the Bond Owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the Bond Owner. Purchasers of the 2021A Bond should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

The opinions that are expressed herein as to the exclusion from gross income of the interest (and original issue discount) on the 2021A Bonds are based upon certain representations of fact and certifications made by the District and others and are subject to the condition that the District complies with all requirements of the Code that must be satisfied subsequent to the issuance of the 2021 Bonds to assure that interest (and original issue discount) on the 2021A Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) on the 2021A Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2021A Bonds. The District has covenanted to comply with all such requirements.

The opinions expressed herein are based upon our analysis and interpretation of existing laws, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. We call attention to the fact that the rights and obligations under the Indenture and the 2021 Bonds are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State of California.

The opinions that are expressed herein may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. Our engagement with respect to the 2021 Bonds terminates on the date of their issuance. The Indenture and the Tax Certificate relating to the 2021 Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. No opinion is expressed herein as to the exclusion from gross income of interest (and original issue discount) on the 2021 Bonds for federal income tax purposes with respect to any 2021 Bond if any such action is taken or omitted based upon the opinion or advice of counsel other than ourselves. Other than expressly stated herein, we express no other opinion regarding tax consequences with respect to the 2021 Bonds.

By delivering this opinion, we are not expressing any opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), right of set-off, arbitration, judicial reference, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the 2021 Bonds, the Indenture or the Installment Purchase Agreement, nor are we expressing any opinion with respect to the state or quality of title to or interest in any assets described in or as subject to the lien of the Indenture or the Installment Purchase Agreement or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on any assets thereunder.

Our opinion is limited to matters governed by the laws of the State of California and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement relating to the 2021 Bonds or other offering material relating to the 2021 Bonds and expressly disclaim any duty to advise the owners of the 2021 Bonds with respect to matters contained in the Official Statement.

Respectfully submitted,

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APPENDIX E

INFORMATION CONCERNING DTC

INFORMATION CONCERNING THE DEPOSITORY TRUST COMPANY

The information in this section concerning DTC and DTC's book-entry only system has been obtained from sources that the District and the Underwriter believe to be reliable, but neither the District nor the Underwriter takes any responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the 2021 Bonds, payment of principal, premium, if any, accreted value, if any, and interest with respect to the 2021 Bonds to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the 2021 Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the 2021 Bonds. The 2021 Bonds will be executed and delivered as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond will be executed and delivered for each annual maturity of the 2021 Bonds, each in the aggregate principal amount of such annual maturity, and will be deposited with DTC.

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

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2021 Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2021 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners.

Beneficial Owners will not receive certificates representing their ownership interests in the 2021 Bonds, except in the event that use of the book-entry system for the 2021 Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2021 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2021 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the 2021 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2021 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the 2021 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Bond Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Trustee, and shall effect delivery of such Bond by causing the Direct Participant to transfer the Participant's interest in the 2021 Bonds, on DTC's records, to the Trustee. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the 2021 Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Trustee's DTC account.

DTC may discontinue providing its services as depository with respect to the 2021 Bonds at any time by giving reasonable notice to the District or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, physical Bonds are required to be printed and delivered.

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

THE TRUSTEE, AS LONG AS A BOOK-ENTRY ONLY SYSTEM IS USED FOR THE 2021 BONDS, WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES TO OWNERS ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY DTC PARTICIPANT, OR OF ANY DTC PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OF SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE 2021 BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

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APPENDIX F

FORM OF CONTINUING DISCLOSURE CERTIFICATE

Upon issuance of the 2021 Bonds, the District proposes to enter into a Continuing Disclosure Certificate in substantially the following form:

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the Panoche Water District (the “District”) in connection with the issuance of the \$ _____ Panoche Financing Authority Revenue Bonds (Panoche Water District), Series 2021A and \$ _____ Panoche Financing Authority Revenue Bonds (Panoche Water District), Series 2021B (Taxable) (collectively, the “Bonds”). The Bonds are being issued pursuant to an Indenture of Trust, dated as of May 1, 2021 (the “Indenture”), by and between the Panoche Financing Authority (the “Authority”) and U.S. Bank National Association, as trustee (the “Trustee”). The District covenants and agrees as follows:

1. Purpose of this Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule.

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

“Annual Report” 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 which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

“EMMA” shall mean the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access System for municipal securities disclosures, maintained on the Internet at <http://emma.msrb.org/>.

“Fiscal Year” shall mean the one year period ending on the last day of February of each year.

“Holder” means a registered owner of the Bonds.

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

“Official Statement” shall mean the Official Statement dated August __, 2021 relating to the Bonds.

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

“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.

“State” shall mean the State of California.

3. Provision of Annual Reports.

(a) The District shall provide not later than 270 days following the end of its Fiscal Year (commencing with the Fiscal Year ending February 28, 2021) to EMMA an Annual Report relating to the immediately preceding Fiscal Year which is consistent with the requirements of Section 4 of this Disclosure Certificate, which Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate.

(b) If the District is unable to provide to EMMA an Annual Report by the date required in subsection (a), the District shall send to EMMA a notice in the manner prescribed by the Municipal Securities Rulemaking Board.

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

(a) The audited financial statements for the prior Fiscal Year, which may be included in the Comprehensive Annual Financial Report of the District, prepared in accordance with accounting principles generally accepted in the United States of America as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the District's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they come available.

(b) Principal amount of the Bonds outstanding.

(c) An update, for the prior Fiscal Year only, of the information in the following tables or paragraphs in Appendix A of the Official Statement:

(i) "Historic Water Deliveries;"

(ii) "Historic Water Sources;" and

(iii) "Supplemental Water Supplies Acquired."

(d) For the prior Fiscal Year, information of the kind included in, and in the general format of, the table titled "Projected Operating Results and Debt Service Coverage." For avoidance of doubt, the District shall only be required to provide historical operating information for the prior Fiscal Year and shall not be required to update any projected operating information.

If the information in section 4(d) above can be derived from the audited financial statements required to be filed in 4(a) above, failure to file separate tables under section 4(d) above shall not constitute a default hereunder. Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which have been submitted to EMMA or the Securities and Exchange Commission; provided, that if any document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board; and provided further, that the District shall clearly identify each such document so included by reference.

5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not more than ten (10) Business Days after the event:

1. principal and interest payment delinquencies;
2. unscheduled draws on debt service reserves reflecting financial difficulties;
3. unscheduled draws on credit enhancements reflecting financial difficulties;
4. substitution of credit or liquidity providers, or their failure to perform;
5. adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability or Notices of Proposed Issue (IRS Form 5701 TEB);
6. tender offers;
7. defeasances;
8. ratings changes;
9. bankruptcy, insolvency, receivership or similar proceedings; and
10. default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation, any of which reflect financial difficulties.

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

(b) Pursuant to the provisions of this Section 5, the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. unless described in Section 5(a)(5), other notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other events affecting the tax status of the Bonds;
2. modifications to the rights of Bond holders;
3. optional, unscheduled or contingent Bond redemptions;
4. release, substitution or sale of property securing repayment of the Bonds;
5. non-payment related defaults;
6. the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms;

7. appointment of a successor or additional trustee or the change of the name of a trustee; and

8. incurrence of a financial obligation, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation, any of which affect Bond holders.

(c) If the District determines that knowledge of the occurrence of a Listed Event under Section 5(b) would be material under applicable federal securities laws, the District shall file a notice of such occurrence with EMMA in a timely manner not more than ten (10) Business Days after the event.

(d) For purposes of the events identified in subparagraphs (a)(10) and (b)(8) under this Section 5, the term “financial obligation” means a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term financial obligation shall not include municipal securities as to which a final official statement has been provided to the Municipal Securities Rulemaking Board consistent with the Rule.

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

7. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that, in the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, or another nationally recognized bond counsel, such amendment or waiver is permitted by the Rule. The District will provide notice of such amendment to the Municipal Securities Rulemaking Board.

8. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the District shall not thereby have any obligation under this Disclosure Certificate to update such information or include it in any future notice of occurrence of a Listed Event.

9. Default. In the event of a failure of the District to file an annual report under Section 4 hereof or to file a report of a significant event under Section 5 hereof, any Owners or Beneficial Owners of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to make such filing. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture or the Installment Purchase Agreement, and the sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

No Owners or Beneficial Owners may institute such action, suit or proceeding to compel performance unless they shall have first delivered to the District satisfactory written evidence of their status as Owners or Beneficial Owners and a written notice of and request to cure such failure, and the District shall have refused to comply therewith within a reasonable time.

10. Dissemination Agent. The District may from time to time appoint or engage a dissemination agent to assist the District in carrying out its obligations under this Disclosure Certificate and may discharge any such dissemination agent with or without appointing a successor dissemination agent.

11. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Dated: August __, 2021

PANOCHE WATER DISTRICT

By: _____
Its: President of the Board of Directors

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