

In the opinion of Orrick, Herrington & Sutcliffe LLP and Bowie, Arneson, Wiles & Giannone, Co-Bond Counsel to IRWD, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2008A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Co-Bond Counsel, interest on the Series 2008A Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Co-Bond Counsel observe that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Co-Bond Counsel express no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2008A Bonds. See "TAX MATTERS" herein.

\$60,215,000

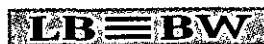
**BONDS OF IRVINE RANCH WATER DISTRICT
CONSOLIDATED REFUNDING SERIES 2008A**

**Constituting the Consolidated Several General Obligations of
Improvement District Nos. 105, 113, 135, 161, 182, 213, 235, 250 and 261**

Dated: Date of Delivery**Price: 100%****Due: July 1, 2035**

The above-captioned bonds (the "Series 2008A Bonds") will be issued by the Irvine Ranch Water District ("IRWD") and will constitute the consolidated, several general obligations of Improvement District Nos. 105, 113, 135, 161, 182, 213, 235, 250 and 261 (collectively, the "Improvement Districts"). The Improvement Districts, along with other improvement districts, are geographical subdivisions of IRWD through which IRWD funds capital improvements. The Series 2008A Bonds will be payable from the following sources, in each case in an amount proportionate to the principal amount of Series 2008A Bonds allocated to each Improvement District: (i) annual *ad valorem* assessments on taxable land in the Improvement Districts, (ii) water or sewer charges, as applicable, collected in the Improvement Districts in IRWD's discretion in lieu of assessments, (iii) proceeds from the sale of property in the Improvement Districts for delinquent assessments and (iv) certain monies and investment earnings in certain funds and accounts created under the Indenture authorizing the Series 2008A Bonds, as more fully described herein. The proceeds of the Series 2008A Bonds will be used to refund all of the outstanding Bonds of Irvine Ranch Water District, Consolidated Series 2006, and to pay the costs of issuance of the Series 2008A Bonds, as described herein.

The payment of principal and Purchase Price of, and interest on, the Series 2008A Bonds initially will be supported by an irrevocable, direct-pay Letter of Credit issued by Landesbank Baden-Württemberg, acting through its New York Branch.



Landesbank Baden-Württemberg

The Letter of Credit will permit The Bank of New York Trust Company, N.A., as trustee (the "Trustee") under an Indenture of Trust, dated as of April 1, 2008 (the "Indenture"), by and between the Trustee and IRWD, to draw up to an amount sufficient to pay (1) the principal of the Series 2008A Bonds when due, (2) the Purchase Price of Series 2008A Bonds that are purchased pursuant to tenders and that are not remarketed and (3) up to 45 days' interest accrued on the Series 2008A Bonds, all as described more completely in this Official Statement. The Letter of Credit expires on April 22, 2011, or on the earlier occurrence of certain events described in this Official Statement. See "THE LETTER OF CREDIT AND THE REIMBURSEMENT AGREEMENT" and "THE BANK." On the fifth Business Day prior to the expiration or termination of the Letter of Credit, the Series 2008A Bonds will be subject to mandatory tender for purchase.

At their issuance, the Series 2008A Bonds will bear interest in a Daily Mode at a rate determined for each day and payable on the fifth Business Day of each month, commencing May 7, 2008; thereafter, the Series 2008A Bonds may bear interest in a Daily Mode, a Weekly Mode, a Monthly Mode, a Semi-Annual Mode, an Annual Mode, a VIP Pricing Long-Term Mode, a VIP Pricing Short-Term Mode or a Fixed Rate Mode as determined from time to time in accordance with the Indenture. The maximum interest rate on the Series 2008A Bonds is 12% per annum, or such lesser maximum rate as may be specified under applicable law, as described in the Indenture.

The Series 2008A Bonds are subject to mandatory and optional redemption by IRWD before maturity, to mandatory purchase under certain circumstances, and under certain circumstances will be purchased on the demand of their Owners, as described in this Official Statement. See "THE SERIES 2008A BONDS — Redemption," "— Mandatory Tender for Purchase" and "— Optional Tender for Purchase."

The Series 2008A Bonds initially will be issuable in Authorized Denominations of \$100,000 and any integral multiple of \$5,000 in excess thereof, and will continue as such while the Series 2008A Bonds bear interest in a Daily Mode or a Weekly Mode.

The Series 2008A Bonds are being issued in fully registered form and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Purchasers of the Series 2008A Bonds will not receive physical certificates representing their beneficial ownership in the Series 2008A Bonds purchased. The principal and Purchase Price of and interest and premium, if any, on the Series 2008A Bonds are payable by the Trustee to DTC. DTC is required to remit such payments to its Participants for subsequent disbursement to the beneficial owners of the Series 2008A Bonds. Beneficial owners' rights will be governed as to such payments, the receipt of notices (including any notice of redemption) and other communications and various other matters by the rules and operating procedures applicable to the DTC book-entry system, as described herein.

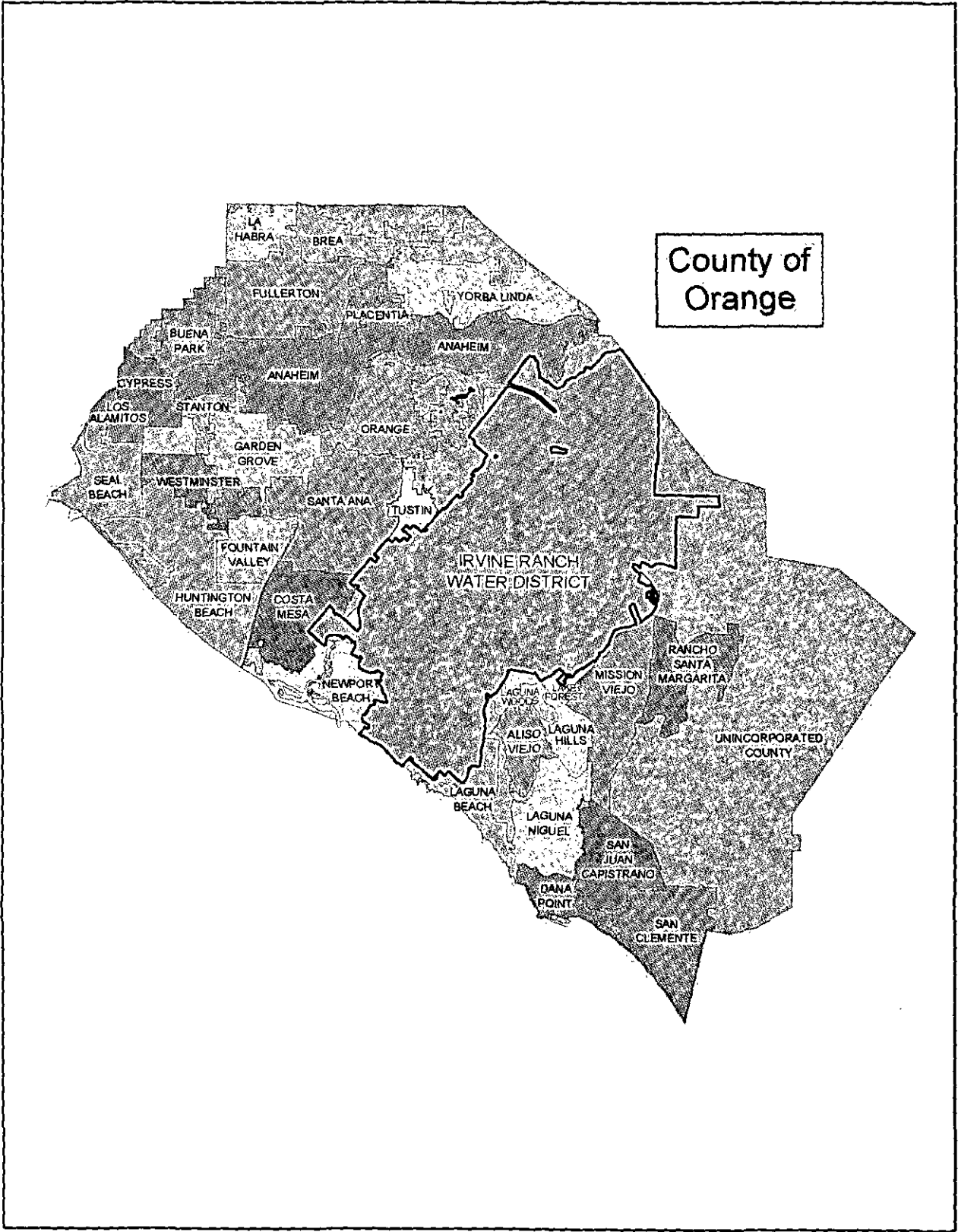
This Official Statement describes the Series 2008A Bonds only while bearing interest in a Daily Mode or a Weekly Mode. Investors should not rely upon the information in this Official Statement in the event that the method of determining the interest rate on the Series 2008A Bonds is changed to a Mode other than the Daily Mode or the Weekly Mode. Rather, investors should rely upon the offering document used in connection with any such Change in Mode.

This cover page contains certain information for general reference only. It is not intended to be a summary of the security or terms of the Series 2008A Bonds. Investors are advised to read the entire Official Statement to obtain information essential to making an informed investment decision.

The Series 2008A Bonds will be offered when, as and if issued, subject to the approval of validity by Orrick, Herrington & Sutcliffe LLP and Bowie, Arneson, Wiles & Giannone, as Co-Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for IRWD by Bowie, Arneson, Wiles & Giannone, in its capacity as General Counsel to IRWD, for the Underwriter by its counsel, Fulbright & Jaworski L.L.P., Los Angeles, California, and for the Bank by its counsel, Chapman and Cutler LLP, Chicago, Illinois. It is anticipated that the Series 2008A Bonds will be available for delivery through the DTC book-entry system on or about April 24, 2008.

LEHMAN BROTHERS

Dated: April 17, 2008



County of
Orange

TABLE OF CONTENTS

	Page
INTRODUCTION	1
Purpose.....	1
Irvine Ranch Water District.....	1
Improvement Districts	1
The Series 2008A Bonds	3
Security for the Series 2008A Bonds.....	3
Letter of Credit.....	4
Summaries Not Definitive	5
No Continuing Disclosure.....	5
Additional Information	5
THE SERIES 2008A BONDS.....	6
General.....	6
Interest.....	7
Change in Mode.....	8
Mandatory Tender for Purchase.....	9
Optional Tender for Purchase	10
Redemption.....	11
Undelivered Series 2008A Bonds.....	13
Book-Entry Only System.....	14
SPECIAL CONSIDERATIONS RELATING TO THE SERIES 2008A BONDS	
SUBJECT TO OPTIONAL TENDER AND REMARKETING.....	14
The Remarketing Agent Is Paid by IRWD	14
The Remarketing Agent Routinely Purchases Series 2008A Bonds for Its Own Account.....	14
Series 2008A Bonds May Be Offered at Different Prices on Any Date Including a Rate Determination Date.....	15
The Ability to Sell the Series 2008A Bonds Other Than through Tender Process May Be Limited	15
Under Certain Circumstances, the Remarketing Agent May be Removed, Resign or Cease Remarketing the Series 2008A Bonds, Without a Successor Being Named	16
PLAN OF REFUNDING.....	16
ESTIMATED SOURCES AND USES OF FUNDS	16
SECURITY FOR THE SERIES 2008A BONDS.....	16
General.....	16
Allocation of Bond Assessments and Charges Under the Indenture	19
Letter of Credit.....	19
Alternate Letter of Credit.....	20
THE LETTER OF CREDIT AND THE REIMBURSEMENT AGREEMENT.....	20
Letter of Credit.....	20
Reimbursement Agreement	21

TABLE OF CONTENTS
(cont'd.)

	Page
THE BANK	24
Landesbank Baden-Württemberg	25
Landesbank Baden-Württemberg, New York Branch	25
Phase-out of Guaranty Obligation and Maintenance Obligation.....	26
LITIGATION.....	26
RATINGS	27
TAX MATTERS.....	27
REMARKETING AGENT.....	29
UNDERWRITING	29
APPROVAL OF LEGAL PROCEEDINGS.....	30
INDEPENDENT ACCOUNTANTS	30
MISCELLANEOUS	30
APPENDIX A – IRVINE RANCH WATER DISTRICT	
APPENDIX B – AUDITED FINANCIAL STATEMENTS	
APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE	
APPENDIX D – BOOK-ENTRY ONLY SYSTEM	
APPENDIX E – FORM OF CO-BOND COUNSEL OPINIONS	

OFFICIAL STATEMENT

\$60,215,000

BONDS OF IRVINE RANCH WATER DISTRICT CONSOLIDATED REFUNDING SERIES 2008A

**Constituting the Consolidated Several General Obligations of
Improvement District Nos. 105, 113, 135, 161, 182, 213, 235, 250 and 261**

INTRODUCTION

This Introduction is subject in all respects to the more complete information contained and referenced elsewhere in this Official Statement. The offering of the Series 2008A Bonds to potential investors is made only by means of the entire Official Statement.

Purpose

The purpose of this Official Statement, which includes the cover page and appendices hereto, is to set forth certain information concerning the Irvine Ranch Water District (“IRWD”) and Improvement District Nos. 105, 113, 135, 161, 182, 213, 235, 250 and 261 (collectively, the “Improvement Districts” or each individually, an “Improvement District”), in connection with the sale by IRWD of \$60,215,000 aggregate principal amount of its Bonds of Irvine Ranch Water District, Consolidated Refunding Series 2008A (the “Series 2008A Bonds”), which constitute the consolidated several general obligations of the Improvement Districts. The Improvement Districts, along with other improvement districts, are geographical subdivisions of IRWD through which IRWD funds capital improvements. The Series 2008A Bonds are being issued for the purposes of refunding all of the outstanding \$60,000,000 aggregate principal amount of Bonds of Irvine Ranch Water District, Consolidated Series 2006, and paying the costs of issuance of the Series 2008A Bonds, as more fully described under “PLAN OF REFUNDING” and “ESTIMATED SOURCES AND USES OF FUNDS.” Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to them in APPENDIX C — “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”

Irvine Ranch Water District

IRWD is a California water district, formed in 1961 under the authority of the California Water District Law, constituting Division 13 of the Water Code of the State (the “Act”). Currently, there are 16 water improvement districts and 17 sewer improvement districts formed pursuant to the Act, which water improvement districts and sewer improvement districts are geographical subdivisions of IRWD through which IRWD funds capital improvements. See APPENDIX A — “IRVINE RANCH WATER DISTRICT.”

Improvement Districts

Set forth below are brief descriptions of each of the Improvement Districts. For more complete information with respect to the Improvement Districts, see APPENDIX A — “IRVINE RANCH WATER DISTRICT – The Improvement Districts.”

Improvement District Nos. 105 and 250. Improvement District No. 105 (water) and Improvement District No. 250 (sewer) are generally coterminous and cover approximately 26,000 acres, including a majority of the area north of the I-5 freeway stretching to near the Riverside County line. Currently, the far western area of Improvement District Nos. 105 and 250 consists of residential development. In addition, large portions of Improvement District Nos. 105 and 250, near the Lomas de Santiago ridgeline, are reserved as permanent open space. IRWD expects development in Improvement District Nos. 105 and 250 to continue until approximately 2025. IRWD expects such future development to be predominantly low density residential with supporting commercial development.

Improvement District Nos. 113 and 213. Improvement District No. 113 (water) and Improvement District No. 213 (sewer) are coterminous and located in portions of the Cities of Tustin and Irvine, California. Improvement District Nos. 113 and 213 are comprised of approximately 1,629 acres of the land formerly known as Marine Corps Air Station Tustin. The boundaries of Improvement District Nos. 113 and 213 are Harvard Avenue on the southeast, Barranca Parkway on the southwest, Red Hill Avenue on the northwest and Edinger Avenue on the northeast. The former helicopter base, now known as Tustin Legacy, is currently being redeveloped with residential, commercial, institutional and recreational uses. IRWD expects development in Improvement District Nos. 113 and 213 to continue until approximately 2020. IRWD expects that such future development will continue to consist of a mix of residential, commercial, institutional and recreational uses.

Improvement District Nos. 135 and 235. Improvement District No. 135 (water) and Improvement District No. 235 (sewer) are coterminous. Improvement District Nos. 135 and 235 were established December 31, 2000 upon the consolidation of the former Los Alisos Water District with IRWD. Improvement District Nos. 135 and 235 cover approximately 5,380 acres in south central Orange County, adjacent to the El Toro Marine Corps Air Station and Interstate 5. The Santa Fe Railway line traverses the southern portion of Improvement District Nos. 135 and 235. Development is approximately 90% complete with remaining development currently zoned for commercial use.

Improvement District Nos. 161 and 261. Improvement District No. 161 (water) and Improvement District No. 261 (sewer) are generally coterminous and encompass approximately 5,900 acres south of the San Diego Freeway up to the San Joaquin Hills ridgeline. Currently approved general plan land use includes large areas of open space mixed with existing and planned residential development. IRWD expects development in Improvement District Nos. 161 and 261 to continue until 2010.

Improvement District No. 182. Improvement District No. 182 (water) consists of approximately 1,791 acres located in the foothills and canyons in the eastern portion of IRWD and bounded by the 241 Toll Road and Alton Parkway. Improvement District No. 182 provides regional and local water supply, storage, transmission and distribution facilities for approximately 3,900 residential units in the Foothill Ranch Planned Community. The residential units are comprised of detached single-family homes, town homes, condominiums and apartments.

See APPENDIX A — “IRVINE RANCH WATER DISTRICT” herein.

The Series 2008A Bonds

The Series 2008A Bonds initially will bear interest accruing from their date of issuance at a rate determined for each day (a "Daily Rate"). When the Series 2008A Bonds bear interest at a Daily Rate, interest will be determined as described under "THE SERIES 2008A BONDS — Interest — *Daily Rate*" and will accrue from and including the first day of each calendar month through the last day of the month and will be payable on the fifth Business Day of the following month (except that during the initial interest period interest shall accrue from and including the dated date of the Series 2008A Bonds through April 30, 2008 and be payable on May 7, 2008). See "THE SERIES 2008A BONDS — Interest — *Daily Rate*."

The method of determining the interest rate borne by the Series 2008A Bonds may be changed at the option of IRWD in accordance with the terms of the Indenture, upon notice to the Owners of the Series 2008A Bonds, to a Daily Mode, a Weekly Mode, a Monthly Mode, a Semi-Annual Mode, an Annual Mode, a VIP Pricing Long-Term Mode, a VIP Pricing Short-Term Mode or a Fixed Rate Mode. See "THE SERIES 2008A BONDS — Change in Mode."

This Official Statement describes the Series 2008A Bonds only while bearing interest in a Daily Mode or a Weekly Mode. Investors should not rely upon the information in this Official Statement in the event that the method of determining the interest rate on the Series 2008A Bonds is changed to a Mode other than the Daily Mode or the Weekly Mode. Rather, investors should rely upon the offering document used in connection with any such Change in Mode.

Security for the Series 2008A Bonds

The Series 2008A Bonds will constitute the several general obligations of the Improvement Districts payable from Bond Assessments and Charges (as defined below) as provided in the Indenture of Trust, dated as of April 1, 2008 (the "Indenture"), by and between IRWD and The Bank of New York Trust Company, N.A., as trustee (the "Trustee"), in Included Amounts (as further described herein) proportionate to each Improvement District's Included Percentage (as further described herein). Amounts collected in any improvement district of IRWD other than the Improvement Districts will not be available to make debt service payments on the Series 2008A Bonds.

As among the Improvement Districts, amounts collected in a particular Improvement District will not be available to pay any other Improvement District's share of debt service of the Series 2008A Bonds. Initially, each Improvement District's Included Amount and Included Percentage shall be as set forth below.

<i>Improvement District No.</i>	<i>Included Amount</i>	<i>Included Percentage</i>
105	\$17,058,910	28.33%
113	1,505,375	2.50
135	4,985,802	8.28
161	1,101,935	1.83
182	361,289	0.60
213	11,139,775	18.50
235	2,998,707	4.98
250	19,961,272	33.15
261	<u>1,101,935</u>	<u>1.83</u>
Total	<u>\$60,215,000</u>	<u>100.00%</u>

See “SECURITY FOR THE SERIES 2008A BONDS — General – *Several General Obligations.*”

The Included Amounts and Included Percentages for any Improvement District may be adjusted as a result of the redemption of Series 2008A Bonds allocated to one or more Improvement Districts or otherwise, pursuant to calculations made by IRWD pursuant to the Indenture and delivered to the Trustee, without need for any amendment of or supplement to the Indenture. See “THE SERIES 2008A BONDS — Redemption – *Optional Redemption*” and “– *Extraordinary Optional Redemption of Series 2008A Bonds to Delete Improvement District.*”

IRWD has covenanted in the Indenture that to the extent necessary to pay principal of and interest on the Included Amount for each respective Improvement District, IRWD will (i) impose and collect or cause the imposition and collection of *ad valorem* assessments on land in each respective Improvement District, (ii) pursue any remedy available to collect, or cause the collection of, delinquent *ad valorem* assessments and apply amounts realized from the sale of any property for delinquent *ad valorem* assessments for such purpose, or (iii) in its discretion, impose and collect, or cause the imposition and collection of, charges for water or sewer service, as applicable, in each respective Improvement District in lieu of *ad valorem* assessments (collectively, the “Bond Assessments and Charges”). The Bond Assessments and Charges levied upon and collected within any Improvement District shall not exceed the amount required to pay such Improvement District’s Included Amount of Outstanding Series 2008A Bonds, premium, if any, and interest thereon. The Bond Assessments and Charges are payable on a parity with certain other obligations of each Improvement District. See “SECURITY FOR THE SERIES 2008A BONDS — General – *Covenant to Collect Bond Assessments and Charges.*”

Letter of Credit

When the Series 2008A Bonds are issued, Landesbank Baden-Württemberg, acting through its New York Branch (the “Bank”), will deliver to the Trustee an irrevocable, direct-pay Letter of Credit initially issued in the amount of \$61,105,853 pursuant to a Reimbursement Agreement, dated as of April 1, 2008 (the “Reimbursement Agreement”), to be entered into between IRWD and the Bank. The initial Letter of Credit shall expire on April 22, 2011, or on the earlier occurrence of certain events as described herein. The initial Letter of Credit may be replaced with another credit facility as described under “SECURITY FOR THE SERIES 2008A BONDS – *Alternate Letter of Credit.*” The initial Letter of Credit, or any qualified replacement

or extension, issued by the Bank, or any other financial institution, is called a "Letter of Credit." Any financial institution which at the time is the issuer of a Letter of Credit is called the "Bank."

The initial Letter of Credit will be issued in a total amount equal to (i) the principal amount of the Series 2008A Bonds (\$60,215,000) plus (ii) 45 days' interest thereon at an annual rate of 12% (\$890,853).

Summaries Not Definitive

The summaries and references to all documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive, and each such summary or reference is qualified in its entirety by reference to each such document, statute, report or instrument. The capitalization of any word not conventionally capitalized or otherwise defined herein, indicates that such word is defined in the Indenture and, as used herein, has the meaning given to it in the Indenture. Unless otherwise indicated, all financial and statistical information herein has been provided by IRWD.

All references to and summaries of the Indenture, and all documents, statutes, reports and other instruments referred to herein are qualified in their entirety by reference to the full Indenture, and each such document, statute, report or instrument, respectively. Forward looking statements in this Official Statement are subject to risks and uncertainties. Actual results may vary from forecasts or projections contained herein because events and circumstances do not occur as expected, and such variances may be material.

No Continuing Disclosure

The Series 2008A Bonds are initially exempt from the rules of the Securities and Exchange Commission relating to continuing disclosure of annual financial information and certain material events.

Additional Information

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

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

The Bank of New York Trust Company, N.A.
700 South Flower Street, Suite 500
Los Angeles, California 90017-4104
(213) 630-6228

THE SERIES 2008A BONDS

General

This Official Statement describes the Series 2008A Bonds only while bearing interest in a Daily Mode or a Weekly Mode. Investors should not rely upon the information in this Official Statement in the event that the method of determining the interest rate on the Series 2008A Bonds is changed to a Mode other than the Daily Mode or the Weekly Mode. Rather, investors should rely upon the offering document used in connection with any such Change in Mode.

The Series 2008A Bonds will be issued in the aggregate principal amount indicated on the cover page of this Official Statement, will be dated the date of delivery of the Series 2008A Bonds, and initially will bear interest at a Daily Rate, until converted to another interest rate Mode as described herein. The Series 2008A Bonds will mature, subject to prior redemption, on July 1, 2035. Interest on the Series 2008A Bonds bearing interest at a Daily Rate or a Weekly Rate accruing during any month will be payable on the fifth Business Day of the following month. Interest on the Series 2008A Bonds is also payable on any Mandatory Purchase Date. Interest will be determined as described herein. While bearing interest at a Daily Rate or a Weekly Rate, the Series 2008A Bonds will be issued in Authorized Denominations of \$100,000 and any integral multiple of \$5,000 in excess thereof.

The term “Business Day” is defined in the Indenture to mean a day on which the Trustee, Deutsche Bank National Trust Company, as paying agent (the “Paying Agent”), Lehman Brothers Inc., as remarketing agent (the “Remarketing Agent”), the Bank or banks or trust companies in New York, New York, or Los Angeles, California, or the city in which the office of the Bank where drawings under the Letter of Credit are to be made, are not authorized or required to remain closed and on which the New York Stock Exchange is not closed. If the date for making any payment on the Series 2008A Bonds is not a Business Day, the payment will be made on the next Business Day with the same effect as if made on the nominal date and no interest will accrue between the nominal date and the actual payment date.

The Series 2008A Bonds when initially issued will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York (“DTC”). So long as DTC, or its nominee Cede & Co., is the registered owner of all the Series 2008A Bonds, all payments of principal of and interest on the Series 2008A Bonds and the Purchase Price of the Series 2008A Bonds will be made directly to DTC. Disbursement of such payments to the DTC Participants (as defined below) will be the responsibility of DTC. Disbursement of such payments to the Beneficial Owners (as defined below) of the Series 2008A Bonds will be the responsibility of the DTC Participants as more fully described herein. See “Book-Entry Only System” below and APPENDIX D — “BOOK-ENTRY ONLY SYSTEM.”

There are a number of provisions in the Indenture relating to the terms of Bank-Owned Bonds (i.e., Series 2008A Bonds purchased by the Bank pursuant to the Letter of Credit and Reimbursement Agreement) that are not described in this Official Statement. All references to the terms of the Series 2008A Bonds in this Official Statement describe only Series 2008A Bonds that are not owned by the Bank unless expressly indicated herein.

Interest

Daily Rate. On their date of issuance, the Series 2008A Bonds will bear interest at the Daily Rate and will continue to do so unless the interest rate Mode for the Series 2008A Bonds is changed to a Weekly Mode, a Monthly Mode, a Semi-Annual Mode, an Annual Mode, a VIP Pricing Long-Term Mode, a VIP Pricing Short-Term Mode or a Fixed Rate Mode. Interest at the Daily Rate will be computed on the basis of a year of 365 days (366 days in leap years) and the actual days elapsed and will accrue from the first day of each calendar month through the last day of such month (except with respect to the initial interest period). Such interest will be paid on the fifth Business Day of the following month, commencing May 7, 2008.

The Daily Rate for the Series 2008A Bonds will be a rate determined by 9:30 a.m., New York City time, on each Business Day by the Remarketing Agent to be the minimum interest rate that, in the opinion of the Remarketing Agent, would enable the Remarketing Agent, under then existing market conditions, to sell the Series 2008A Bonds on such day at the principal amount thereof plus accrued interest. The Daily Rate for a non-Business Day will be the rate set for the preceding Business Day.

In the event that such rate for the immediately preceding day was not determined by the Remarketing Agent for the Daily Mode, or in the event that the rate determined by the Remarketing Agent shall be held to be invalid or unenforceable by a court of law, then the interest rate for such day shall be equal to 110% of the SIFMA Index made available for the week preceding the date of determination, or if such index is no longer available, or no such index was so made available for the week preceding the date of determination, 75% of the interest rate on 30-day high grade unsecured commercial paper notes sold through dealers by major corporations as reported in *The Wall Street Journal* on the day the rate would otherwise be determined as provided in the Indenture for such Daily Mode.

Weekly Rate. If the interest rate Mode is changed to a Weekly Mode, then the Series 2008A Bonds will bear interest at the Weekly Rate, which will be computed on the basis of a year of 365 days (366 days in leap years) and the actual days elapsed and will accrue from the first day of each calendar month through the last day of such month (except with respect to the initial interest period upon any Change in Mode to the Weekly Mode). Such interest will be paid on the fifth Business Day of the following month.

The Weekly Rate for the Series 2008A Bonds will be a rate determined by 5:00 p.m., New York City time, on each Wednesday (or, if such Wednesday is not a Business Day, the next succeeding day, or if such day is not a Business Day, then the Business Day next preceding such Wednesday) by the Remarketing Agent to be the minimum interest rate that, in the opinion of the Remarketing Agent, would enable the Remarketing Agent, under then existing market conditions, to sell the Series 2008A Bonds on such day at the principal amount thereof plus accrued interest. The Weekly Rate so determined shall be in effect during the period from and including the first day that the Series 2008A Bonds become subject to the Weekly Mode to and including the following Wednesday and thereafter commencing on each Thursday to and including Wednesday of the following week.

In the event that such rate for the immediately preceding week was not determined by the Remarketing Agent for a Weekly Mode, or in the event that the rate determined by the

Remarketing Agent shall be held to be invalid or unenforceable by a court of law, then the interest rate for such week shall be equal to the Variable Index on the day the rate would otherwise be determined as provided in the Indenture for such Weekly Mode.

“Variable Index” means the SIFMA Municipal Swap Index announced by Municipal Market Data on any rate determination date and based upon the weekly interest rate resets of Tax-Exempt variable rate issues, as described in the Indenture (the “SIFMA Index”). If for any reason the SIFMA Index for any rate determination date is not announced or is otherwise unavailable or is held to be invalid or unenforceable by a court of law, the Variable Index for such rate determination date shall be an index selected by the Remarketing Agent which is a composite of bid-side yields of obligations (a) which (i) provide for a weekly adjustment of the interest rate, and (ii) which (A) must be purchased on demand of the owner thereof at any time upon notice of up to seven days or (B) are payable in full not later than seven days after the date of evaluation and (b) the interest on which is Tax-Exempt and is not subject to any personal “alternative minimum tax” or similar tax under the Code unless all Tax-Exempt securities are subject to such tax. If no such index is so selected by the Remarketing Agent or if any such index is held to be invalid or unenforceable by a court of law, the Variable Index for such rate determination date shall be an index computed by the Remarketing Agent and shall be equal to 95% of the yield applicable to 91-day United States Treasury bills, such yield to be computed on the basis of the coupon equivalent of the average per annum discount rate at which such Treasury bills shall have been sold at the most recent Treasury auction conducted prior to such rate determination date.

Maximum Interest Rate. Notwithstanding the foregoing, the maximum interest rate on the Series 2008A Bonds (other than Bank-Owned Bonds) is 12% per annum, or such lesser maximum rate as may be specified under applicable law, as described in the Indenture.

Change in Mode

IRWD may effect a Change in Mode with respect to the Series 2008A Bonds by delivering to the Trustee a Notice of Change in Mode stating (A) the election to change the Mode to which the Series 2008A Bonds are then subject (the “Current Mode”) to a different Mode (the “New Mode”), the type of which shall be specified; (B) the date on which Series 2008A Bonds are required to be purchased pursuant to the Indenture, which shall be the date as of which the New Mode shall take effect; and (C) a form of notice of mandatory purchase satisfying the requirements of the Indenture. When the Change in Mode is from a Short-Term Mode to a Long-Term Mode, such notice shall be accompanied by a letter of Bond Counsel stating that it expects to be able to deliver a Favorable Opinion of Bond Counsel with respect to the Change in Mode on the date the New Mode shall take effect.

Not less than 15 days prior to a proposed Change in Mode, the Trustee shall give written notice to the Owners of the Change in Mode and the mandatory purchase of all Series 2008A Bonds as provided in the Indenture. In addition to the information required to be included therein pursuant to the Indenture, such notice shall state (A) the New Mode to which the Series 2008A Bonds are to be subject; (B) the effective date of the New Mode; and (C) the procedures for the Owners to tender Series 2008A Bonds for purchase prior to the effectiveness of the New Mode.

The New Mode shall take effect only if the following conditions are satisfied by 9:00 a.m. on the date of the proposed Change in Mode: (i) if the Change in Mode is from a Short-Term Mode to a Long-Term Mode, the Trustee has received a Favorable Opinion of Bond Counsel, dated the date the New Mode is to take effect, with respect to the Change in Mode, (ii) if the Letter of Credit is to be in effect during the New Mode, the interest portion of the Letter of Credit is in an amount equal to or greater than the Letter of Credit Interest Amount for the applicable Mode, (iii) if the New Mode is the VIP Pricing Short-Term Mode, the Interest Reserve Fund has been funded with Seasoned Funds in an amount equal to or greater than the Interest Reserve Fund Requirement, (iv) if the New Mode is the Fixed Rate Mode, the Trustee and the Remarketing Agent have received a Fixed Rate Terms Certificate which specifies the Fixed Rate Reserve Requirement and the Fixed Rate Reserve Account has been funded in an amount equal to the Fixed Rate Reserve Requirement. If such conditions are satisfied, then the New Mode shall take effect on the date of the proposed Change in Mode and if the New Mode is the Fixed Rate Mode, the Fixed Rate Reserve Requirement shall be as specified in the Fixed Rate Terms Certificate. If such conditions are not satisfied, then (a) all Outstanding Series 2008A Bonds shall be purchased on such date in accordance with the Indenture; (b) all Outstanding Series 2008A Bonds shall continue to be subject to the Current Mode; and (c) the Trustee shall, within five Business Days after the date of the proposed Change in Mode, send notice to the Notice Parties stating that the conditions to the Change in Mode have not all been satisfied and informing them of the consequences thereof.

Mandatory Tender for Purchase

The Series 2008A Bonds are subject to mandatory tender for purchase at the applicable Purchase Price under certain circumstances described below.

Mandatory Purchase on Change in Mode. In the event of a change in the interest rate Mode for the Series 2008A Bonds, the Series 2008A Bonds will be subject to mandatory purchase on the effective date of the Change in Mode.

Mandatory Purchase on Substitution of Letter of Credit. The Series 2008A Bonds will be subject to mandatory purchase on the effective date of any substitution of an Alternate Letter of Credit for the then existing Letter of Credit.

Mandatory Purchase on Event of Default Under Reimbursement Agreement. The Series 2008A Bonds will be subject to mandatory purchase at the option of the Bank on a date specified by the Bank (which shall be a Business Day no more than 15 days after the Trustee's receipt of such notice) upon the occurrence and during the continuation of an event of default under the Reimbursement Agreement. See "THE LETTER OF CREDIT AND THE REIMBURSEMENT AGREEMENT — The Reimbursement Agreement."

Mandatory Purchase on Expiration of Letter of Credit. The Series 2008A Bonds will be subject to mandatory purchase five Business Days before the expiration, termination or cancellation of the Letter of Credit.

Notice. Notice of any such mandatory purchase will be mailed by the Trustee to the Owners not less than 15 days prior to the Mandatory Purchase Date. Such notice shall state, among other things, (i) the Mandatory Purchase Date, (ii) that the Series 2008A Bonds shall be

tendered for purchase by delivery of such Series 2008A Bonds to the Trustee at its principal corporate trust office on or prior to the Mandatory Purchase Date and that any Series 2008A Bonds not so tendered for purchase as required shall be deemed to have been so tendered and, upon provision for payment of the Purchase Price therefor from the funds specified in the Indenture, shall be deemed to have been purchased on the Mandatory Purchase Date after which no interest shall accrue thereon for the benefit of the Owner required to so tender such Series 2008A Bond and such Owner shall have no rights under the Indenture as the Owner of such Series 2008A Bond except the right to receive the Purchase Price thereof, and (iii) that all Series 2008A Bonds subject to such mandatory purchase shall be purchased on the applicable Mandatory Purchase Date at the applicable Purchase Price.

Optional Tender for Purchase

The Indenture provides that Series 2008A Bonds will be purchased at the option of the Owners at the applicable Purchase Price under certain circumstances described below, but solely from monies made available for that purpose under the Indenture. Payment will be made in immediately available funds by the close of business on the date specified by the Owner for purchase, if the conditions described below, which are applicable to Series 2008A Bonds held by DTC or another Bond Depository, have been strictly observed.

Daily Mode Tender. When the Series 2008A Bonds are in Daily Mode, an Owner thereof may tender for purchase its Series 2008A Bonds or any portion thereof (so long as the principal amount purchased and principal amount not purchased are in Authorized Denominations) on any Business Day at a Purchase Price equal to the principal amount thereof, plus accrued but unpaid interest thereon, by delivering on such Business Day a written or telephonic notice, or mutually agreeable electronic communication, immediately confirmed in writing, to the Remarketing Agent and the Paying Agent (addresses below) by 11:00 a.m., New York City time, stating the principal amount of the Series 2008A Bond, the principal amount to be purchased and the Business Day the Series 2008A Bond is to be purchased, together with applicable payment instructions and an irrevocable demand for such purchase.

Weekly Mode Tender. When the Series 2008A Bonds are in a Weekly Mode, an Owner thereof may tender for purchase its Series 2008A Bonds or any portion thereof (so long as the principal amount purchased and principal amount not purchased are in Authorized Denominations) on any Business Day at a Purchase Price equal to the principal amount thereof, plus accrued but unpaid interest thereon, by delivering not later than seven days prior to such Business Day a written notice to the Remarketing Agent and the Paying Agent (addresses below) by 5:00 p.m., New York City time, stating the principal amount of the Series 2008A Bond, the principal amount to be purchased and the Business Day the Series 2008A Bond is to be purchased, together with applicable payment instructions and an irrevocable demand for such purchase.

Tender Notice Irrevocable. Any Tender Notice by any Owner shall be irrevocable. If such Owner is required but fails to deliver the Series 2008A Bond referred to in its Tender Notice to the Trustee, such Series 2008A Bond shall nonetheless be deemed to have been tendered and, upon provision for payment of the Purchase Price therefor from the funds specified in the Indenture, no interest shall accrue on such Series 2008A Bond for the benefit of such Owner from and after the Purchase Date and such Owner shall have no rights under the

Indenture as the Owner of such Series 2008A Bond except the right to receive the Purchase Price thereof.

Notwithstanding the foregoing, the Owners shall have no right to demand purchase of Series 2008A Bonds pursuant to the Indenture from the third Business Day prior to a Mandatory Purchase Date until after such Mandatory Purchase Date.

Notices in respect of optional tenders must be delivered as follows:

To the Paying Agent:

First Class/Registered/Certified

The Bank of New York Trust Company, N.A.
Global Corporate Trust
P.O. Box 396
East Syracuse, NY 13057
Telephone: (800) 254-2826

To the Remarketing Agent:

Lehman Brothers
Municipal Bond Department
745 Seventh Avenue, 7th Floor
New York, NY 10019-6801
Attention: Short Term Trading Desk Manager
Telephone: (212) 528-1011
Fax: (646) 758-1870

Express Delivery Only

The Bank of New York Trust Company, N.A.
Global Corporate Trust
111 Sanders Creek Parkway
East Syracuse, NY 13057
Telephone: (800) 254-2826

Tenders of the Series 2008A Bonds Are Subject to DTC Procedures. As long as the book-entry system is in effect with respect to the Series 2008A Bonds, all tenders for purchase and deliveries of Series 2008A Bonds tendered for purchase or subject to mandatory tender under the provisions of the Indenture shall be made pursuant to DTC's procedures as in effect from time to time, and none of IRWD, the Trustee or the Remarketing Agent shall have any responsibility for or liability with respect to the implementation of such procedures. For a description of the tender procedures through DTC, see APPENDIX D – "BOOK-ENTRY ONLY SYSTEM."

Redemption

Mandatory Sinking Fund Redemption. The Series 2008A Bonds are subject to redemption on July 1, 2010 and each July 1 thereafter, at a redemption price equal to 100% of the principal amount of the Series 2008A Bonds to be redeemed, plus accrued and unpaid interest thereon to the date of redemption, without premium, in the years and principal amounts as follows:

<i>Mandatory Redemption Dates (July 1)</i>	<i>Mandatory Sinking Fund Payments</i>
2010	\$1,415,000
2011	1,200,000
2012	1,200,000
2013	1,200,000
2014	1,200,000
2015	1,500,000
2016	1,500,000
2017	1,500,000
2018	1,500,000
2019	1,500,000
2020	1,500,000
2021	2,000,000
2022	2,000,000
2023	2,000,000
2024	2,000,000
2025	2,500,000
2026	2,500,000
2027	2,500,000
2028	2,500,000
2029	2,500,000
2030	3,500,000
2031	3,500,000
2032	3,500,000
2033	4,000,000
2034	4,000,000
2035 [†]	6,000,000

[†] Final maturity.

The principal amount of any Series 2008A Bonds optionally redeemed by IRWD shall be credited proportionally to all remaining yearly mandatory redemption amounts that are scheduled to occur at least 75 days after the date of such optional redemption.

Optional Redemption. The Series 2008A Bonds are subject to optional redemption by IRWD, in whole or in part, in Authorized Denominations, on any Business Day at a redemption price equal to 100% of the principal amount thereof to be redeemed, plus accrued and unpaid interest to the Redemption Date, without premium. If such redemption is in part, Series 2008A Bonds owned by the Bank shall be selected for redemption prior to selecting any other Series 2008A Bonds and thereafter Series 2008A Bonds shall be redeemed by lot as shall be determined by the Trustee.

Extraordinary Optional Redemption of Series 2008A Bonds to Delete Improvement District. In the event that IRWD determines that based on the rate of collection of assessments and charges, and on the amounts held in any Fund or account for the account of any Improvement District, IRWD will be unable to pay the principal of and interest on the Included

Amount of the Outstanding Series 2008A Bonds for such Improvement District, IRWD may, at its option, redeem on any Business Day the Included Amount of such Improvement District plus any additional amount necessary to cause the amount redeemed to equal an Authorized Denomination, at a price equal to the principal amount thereof to be redeemed plus accrued but unpaid interest to such Redemption Date, if any, without premium. After any such redemption, the Included Percentages of all other Improvement Districts shall be recomputed for all purposes relative to the Outstanding Series 2008A Bonds as set forth in the Indenture.

Notice of Redemption. Notice of redemption of the Series 2008A Bonds will be mailed by the Trustee not less than 15 days (for Series 2008A Bonds in the Daily Mode) or not less than 30 days (for Series 2008A Bonds in the Weekly Mode) nor more than 60 days before the redemption date to the Owners of any Series 2008A Bonds designated for redemption in whole or in part and to the Information Services and Securities Depositories. Each notice of redemption shall identify the Series 2008A Bonds or portions of the Series 2008A Bonds to be redeemed, specify the redemption date, the redemption price, the redemption place, the maturity date of the Series 2008A Bonds to be redeemed, in the case of any Series 2008A Bonds called for redemption in part only, the portion of the principal amount thereof which is to be redeemed, and state that from and after the redemption date interest on the Series 2008A Bonds which are to be redeemed will cease to accrue. The failure of any Owner to receive such notice will not affect the validity of the redemption of any Series 2008A Bonds.

With respect to any notice of any optional redemption of Series 2008A Bonds, unless at the time such notice is given the Series 2008A Bonds to be redeemed shall be deemed to have been paid and discharged as provided in the defeasance provisions of the Indenture, such notice shall state that such redemption is conditional upon receipt by the Trustee, on or prior to the date fixed for such redemption, of moneys that, together with other available amounts held by the Trustee, are sufficient to pay the redemption price of, and accrued interest on, the Series 2008A Bonds to be redeemed, and that if such moneys shall not have been so received said notice shall be of no force and effect and IRWD shall not be required to redeem such Series 2008A Bonds. In the event a notice of redemption of Series 2008A Bonds contains such a condition and such moneys are not so received, the redemption of Series 2008A Bonds as described in the conditional notice of redemption shall not be made and the Trustee shall, within a reasonable time after the date on which such redemption was to occur, give notice to the persons who received such notice of redemption and in the manner in which the notice of redemption was given, that such moneys were not so received and that there shall be no redemption of Series 2008A Bonds pursuant to such notice of redemption.

Any notice mailed as provided above will be conclusively presumed to have been given, whether or not actually received by any Owner. Failure by the Trustee to give notice pursuant to the Indenture to any one or more of the Information Services or the Securities Depositories, or the insufficiency of any such notice, shall not affect the sufficiency of the proceedings for redemption.

Undelivered Series 2008A Bonds

Any Series 2008A Bond to be purchased or redeemed pursuant to the Indenture for which monies have been deposited and which is not delivered to the Trustee shall nevertheless be deemed to have been purchased or redeemed. After the redemption or purchase date, the

undelivered Series 2008A Bond will represent only a right to collect the deposited monies. After the deposited monies have been held two years, they will be returned to IRWD. See APPENDIX C — “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE — Unclaimed Money.”

Book-Entry Only System

The Series 2008A Bonds are being issued in fully registered form and when issued will be registered in the name of Cede & Co., as nominee of DTC. Purchasers of the Series 2008A Bonds will not receive physical certificates representing their beneficial ownership in the Series 2008A Bonds purchased. The principal of and interest and premium, if any, on the Series 2008A Bonds are payable by the Trustee to DTC. DTC is required to remit such payments to its Participants for subsequent disbursement to the beneficial owners of the Series 2008A Bonds. Beneficial owners’ rights will be governed as to such payments, the receipt of notices (including any notice of redemption) and other communications and various other matters by the rules and operating procedures applicable to the DTC book-entry system. See APPENDIX D hereto for additional information concerning DTC and its rules and operating procedures.

IRWD cannot and does not give any assurances that DTC participants or others will distribute payments with respect to the Series 2008A 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.

IRWD may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, the Series 2008A 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. See APPENDIX C — “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Certain Terms of the Series 2008A Bonds.”

SPECIAL CONSIDERATIONS RELATING TO THE SERIES 2008A BONDS SUBJECT TO OPTIONAL TENDER AND REMARKETING

The Remarketing Agent Is Paid by IRWD

The Remarketing Agent’s responsibilities include determining the interest rate from time to time and remarketing Series 2008A Bonds that are optionally or mandatorily tendered by the owners thereof (subject, in each case, to the terms of the Remarketing Agreement), as further described in this Official Statement. The Remarketing Agent is appointed by IRWD and is paid by IRWD for its services. As a result, the interests of the Remarketing Agent may differ from those of existing holders and potential purchasers of Series 2008A Bonds.

The Remarketing Agent Routinely Purchases Series 2008A Bonds for Its Own Account

The Remarketing Agent acts as remarketing agent for a variety of variable rate demand obligations and, in its sole discretion, routinely purchases such obligations for its own account. The Remarketing Agent is permitted, but not obligated, to purchase tendered Series 2008A

Bonds for its own account and, in its sole discretion, routinely acquires such tendered Series 2008A Bonds in order to achieve a successful remarketing of the Series 2008A Bonds (*i.e.*, because there otherwise are not enough buyers to purchase the Series 2008A Bonds) or for other reasons. However, the Remarketing Agent is not obligated to purchase Series 2008A Bonds, and may cease doing so at any time without notice. The Remarketing Agent may also make a market in the Series 2008A Bonds by routinely purchasing and selling Series 2008A Bonds other than in connection with an optional or mandatory tender and remarketing. Such purchases and sales may be at or below par. However, the Remarketing Agent is not required to make a market in the Series 2008A Bonds. The Remarketing Agent may also sell any Series 2008A Bonds it has purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure to the Series 2008A Bonds. The purchase of Series 2008A Bonds by the Remarketing Agent may create the appearance that there is greater third party demand for the Series 2008A Bonds in the market than is actually the case. The practices described above also may result in fewer Series 2008A Bonds being tendered in a remarketing.

Series 2008A Bonds May Be Offered at Different Prices on Any Date Including a Rate Determination Date

Pursuant to the Remarketing Agreement, the Remarketing Agent is required to determine the applicable rate of interest that, in its judgment, is the lowest rate that would permit the sale of the Series 2008A Bonds bearing interest at the applicable interest rate at par plus accrued interest, if any, on and as of the applicable Rate Determination Date. The interest rate will reflect, among other factors, the level of market demand for the Series 2008A Bonds (including whether the Remarketing Agent is willing to purchase Series 2008A Bonds for its own account). There may or may not be Series 2008A Bonds tendered and remarketed on a Rate Determination Date, the Remarketing Agent may or may not be able to remarket any Series 2008A Bonds tendered for purchase on such date at par and the Remarketing Agent may sell Series 2008A Bonds at varying prices to different investors on such date or any other date. The Remarketing Agent is not obligated to advise purchasers in a remarketing if it does not have third party buyers for all of the Series 2008A Bonds at the remarketing price. In the event the Remarketing Agent owns any Series 2008A Bonds for its own account, it may, in its sole discretion in a secondary market transaction outside the tender process, offer such Series 2008A Bonds on any date, including the Rate Determination Date, at a discount to par to some investors.

The Ability to Sell the Series 2008A Bonds Other Than through Tender Process May Be Limited

The Remarketing Agent may buy and sell Series 2008A Bonds other than through the tender process. However, it is not obligated to do so and may cease doing so at any time without notice and may require holders that wish to tender their Series 2008A Bonds to do so through the Tender Agent with appropriate notice. Thus, investors who purchase the Series 2008A Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their Series 2008A Bonds other than by tendering the Series 2008A Bonds in accordance with the tender process.

Under Certain Circumstances, the Remarketing Agent May be Removed, Resign or Cease Remarketing the Series 2008A Bonds, Without a Successor Being Named

Under certain circumstances the Remarketing Agent may be removed or have the ability to resign or cease its remarketing efforts, without a successor having been named, subject to the terms of the Remarketing Agreement. In the event there is no Remarketing Agent, the Trustee may assume such duties as described in the Indenture.

PLAN OF REFUNDING

IRWD will cause the net proceeds of the sale of the Series 2008A Bonds to be deposited with The Bank of New York Trust Company, N.A., as trustee (the "Prior Bonds Trustee"), and on April 25, 2008 the Prior Bonds Trustee shall apply such proceeds, together with other funds provided by IRWD, to redeem all of the Bonds of Irvine Ranch Water District, Consolidated Series 2006, which are currently outstanding in the aggregate principal amount of \$60,000,000. See also "ESTIMATED SOURCES AND USES OF FUNDS."

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds with respect to the Series 2008A Bonds are as follows:

Sources		
Principal Amount of Series 2008A Bonds		<u>\$60,215,000</u>
Total		\$60,215,000
Uses		
Deposit with Prior Bonds Trustee ⁽¹⁾		\$60,000,000
Underwriter's Discount		89,680
Costs of Issuance ⁽²⁾		<u>125,320</u>
Total		\$60,215,000

⁽¹⁾ IRWD also will deposit with the Prior Bonds Trustee accrued interest on the Prior Bonds to the date of redemption.

⁽²⁾ Includes legal, financing and consulting fees, rating agency fees, printing costs and other miscellaneous expenses.

SECURITY FOR THE SERIES 2008A BONDS

General

Authority for Issuance. Pursuant to Resolution No. 1978-62 adopted April 17, 1978, Resolution No. 2004-21 adopted June 14, 2004, a resolution adopted September 5, 1968 by the Board of Directors of the Los Alisos Water District ("LAWD"), a water district existing separately but later combined with the IRWD on December 31, 2000, Resolution No. 1978-63 adopted April 17, 1978, Resolution No. 1988-11 adopted January 25, 1988, Resolution No. 2004-22 adopted June 14, 2004, a resolution adopted September 5, 1968 by the Board of Directors of the LAWD, Resolution No. 1978-69 adopted April 17, 1978 and Resolution

No. 1978-70 adopted April 17, 1978, a special election was conducted in Improvement District Nos. 105, 113, 135, 161, 182, 213, 235, 250 and 261, respectively, on June 19, 1978, August 31, 2004, October 8, 1968, June 19, 1978, March 1, 1988, August 31, 2004, October 8, 1968, June 19, 1978 and June 19, 1978, at which the qualified voters within each Improvement District authorized IRWD to incur an indebtedness and issue general obligation bonds for each respective Improvement District. See APPENDIX A — “IRVINE RANCH WATER DISTRICT” for a discussion of the bond authorization, amount of outstanding Series 2008A Bonds and remaining bond authorization for each of the Improvement Districts. The Series 2008A Bonds are authorized for issuance pursuant to the Act and Section 53541 of the Government Code of the State and all laws of the State amendatory thereof or supplemental thereto.

Several General Obligations. The Series 2008A Bonds will constitute the several, general obligations of the Improvement Districts payable from Bond Assessments and Charges as provided in the Indenture, in amounts proportionate to each Improvement District’s Included Percentage, as defined below. Amounts collected in any improvement district of IRWD other than the Improvement Districts will not be available to make debt service payments on the Series 2008A Bonds.

Under the Indenture, each Improvement District’s “Included Percentage” is defined as a fraction (i) the numerator of which is equal to the Included Amount for such Improvement District and (ii) the denominator of which is equal to the par value of all Outstanding Series 2008A Bonds, calculated to the fourth decimal place; provided, however, that on any date, the total of the Included Percentages for all Improvement Districts having Included Amounts of Outstanding Series 2008A Bonds on such date shall equal 100%. The Indenture defines “Included Amount” for an Improvement District as the principal amount of Outstanding Series 2008A Bonds allocable to such Improvement District.

As among the Improvement Districts, amounts collected in a particular Improvement District will not be available to pay any other Improvement District’s share of debt service of the Series 2008A Bonds. Initially, each Improvement District’s Included Amount and Included Percentage shall be as set forth below.

<i>Improvement District No.</i>	<i>Included Amount</i>	<i>Included Percentage</i>
105	\$17,058,910	28.33%
113	1,505,375	2.50
135	4,985,802	8.28
161	1,101,935	1.83
182	361,289	0.60
213	11,139,775	18.50
235	2,998,707	4.98
250	19,961,272	33.15
261	<u>1,101,935</u>	<u>1.83</u>
Total	<u>\$60,215,000</u>	<u>100.00%</u>

The Included Amounts and Included Percentages for any Improvement District may be adjusted as a result of the redemption of Series 2008A Bonds allocated to one or more

Improvement Districts or otherwise, pursuant to calculations made by IRWD pursuant to the Indenture and delivered to the Trustee, without need for any amendment of or supplement to the Indenture. See “THE SERIES 2008A BONDS — Redemption – *Optional Redemption*” and “– *Extraordinary Optional Redemption of Series 2008A Bonds to Delete Improvement District.*”

Covenant to Collect Bond Assessments and Charges. IRWD has covenanted in the Indenture that to the extent necessary to pay principal of and interest on the Included Amount for each respective Improvement District, IRWD will (i) impose and collect or cause the imposition and collection of *ad valorem* assessments on land in each respective Improvement District, (ii) pursue any remedy available to collect, or cause the collection of, delinquent *ad valorem* assessments and apply amounts realized from the sale of any property for delinquent *ad valorem* assessments for such purpose, or (iii) in its discretion, impose and collect, or cause the imposition and collection of, charges for water or sewer service, as applicable, in each respective Improvement District in lieu of *ad valorem* assessments (collectively, the “Bond Assessments and Charges”). The Bond Assessments and Charges levied upon and collected within any Improvement District shall not exceed the amount required to pay such Improvement District’s Included Amount of Outstanding Series 2008A Bonds, premium, if any, and interest thereon. See APPENDIX C — “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Certain Covenants of IRWD.”

Pursuant to Section 35975 of the Act and as reflected in clause (iii) of the covenant described above, IRWD may levy certain charges in lieu of *ad valorem* assessments to pay the Series 2008A Bonds; however, IRWD does not currently levy any such in-lieu charges for outstanding *ad valorem* assessment bonds.

The Bond Assessments and Charges levied upon and collected by IRWD, along with bond assessments and charges collected by IRWD and allocable to other outstanding (or authorized, but not yet issued) *ad valorem* assessment bonds of IRWD issued on behalf of the Improvement Districts are (or, with respect to such bonds to be issued in the future, will be) parity obligations of such Improvement Districts, secured by *ad valorem* assessments on land (including the Bond Assessments and Charges) within such Improvement Districts. For information regarding the current debt structures of the Improvement Districts, see APPENDIX A — “IRVINE RANCH WATER DISTRICT – The Improvement Districts.” See also “*Several General Obligations*” above.

Although the Series 2008A Bonds are secured by the Bond Assessments and Charges, IRWD may elect, and from time to time has elected in the past in connection with other outstanding *ad valorem* assessment bonds, also to apply other available sources to the payment of such debt service. As a result of IRWD’s discretionary election to use other sources of payment for debt service on *ad valorem* assessment bonds, the annual tax rates set by IRWD will vary from year to year and generally will not result in revenues from Bond Assessments and Charges that correspond with debt service requirements on the Series 2008A Bonds. There is no assurance that such alternate sources for debt service payments will be available or continue to be available in succeeding years, or that if they are available, IRWD will elect to use them for debt service payments. See APPENDIX A — “IRVINE RANCH WATER DISTRICT – Long-Term Obligations.”

Allocation of Bond Assessments and Charges Under the Indenture

In accordance with the Indenture, all Bond Assessments and Charges, when and as received by IRWD, shall be deposited into a fund to be established and maintained by the Trustee designated as the "Bond Payment Fund." There is to be established in the Bond Payment Fund an Interest Account, a Principal Account, a Redemption Account and a Letter of Credit Account and within each such Account is to be established a subaccount for each Improvement District. The Trustee shall transfer money contained in the Bond Payment Fund to the accounts and subaccounts described below at the respective times set forth below.

Interest Account. When a Letter of Credit is in effect, the Trustee, on each Interest Payment Date, shall withdraw and apply monies in the Interest Account, if any, to reimburse the Bank for draws on the Letter of Credit pursuant to the Indenture. When no Letter of Credit is in effect, the Trustee, on each Interest Payment Date, shall deposit in the Interest Account from money in the Bond Payment Fund an amount which, together with amounts already on deposit in the Interest Account shall be sufficient to pay interest payable on the Outstanding Series 2008A Bonds on such Interest Payment Date. Money in the Interest Account shall be used and withdrawn by the Trustee on each Interest Payment Date for the payment of interest on the Outstanding Series 2008A Bonds or reimbursement of the Bank for such payment.

Principal Account. When a Letter of Credit is in effect, the Trustee, on each Principal Payment Date, shall withdraw and apply monies in the Principal Account, if any, to reimburse the Bank for draws on the Letter of Credit pursuant to the Indenture. When no Letter of Credit is in effect, the Trustee, on each Principal Payment Date, shall deposit in the Principal Account from money in the Bond Payment Fund an amount which, together with amounts already on deposit in the Principal Account shall be sufficient to pay principal payable on the Outstanding Series 2008A Bonds on such Principal Payment Date. Money in the Principal Account shall be used and withdrawn by the Trustee on each Principal Payment Date for the payment of the principal of Outstanding Series 2008A Bonds or reimbursement of the Bank for such payment.

Redemption Account. When a Letter of Credit is in effect, the Trustee shall deposit in the Redemption Account amounts received from IRWD to pay the premium on the Series 2008A Bonds to be redeemed pursuant to the Indenture. The Trustee shall apply such amounts to pay the premium on Series 2008A Bonds to be redeemed only if and to the extent that such amounts constitute Seasoned Funds on the date of application. When no Letter of Credit is in effect, the Trustee shall deposit in the Redemption Account amounts received from IRWD to pay the principal of and premium on Series 2008A Bonds to be redeemed pursuant to the Indenture. When no Letter of Credit is in effect, money in the Redemption Account shall be used and withdrawn by the Trustee on each Redemption Date solely for the payment of the principal of and premium, if any, on Outstanding Series 2008A Bonds upon the redemption thereof pursuant to the Indenture. See APPENDIX C — "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Funds and Accounts."

Letter of Credit

The Bank will issue the initial Letter of Credit to the Trustee when the Series 2008A Bonds are issued. The Letter of Credit is issued for the benefit of the Series 2008A Bonds to provide the payment of principal and Purchase Price of and interest on the Series 2008A Bonds

as described under “THE LETTER OF CREDIT AND THE REIMBURSEMENT AGREEMENT.” Prior to the expiration date of the Letter of Credit, the Series 2008A Bonds will be subject to mandatory purchase. See “THE SERIES 2008A BONDS — Mandatory Tender for Purchase – *Mandatory Purchase on Expiration of Letter of Credit.*”

Alternate Letter of Credit

The Indenture provides that if at any time there shall have been delivered to the Trustee (i) an Alternate Letter of Credit in substitution for the Letter of Credit then in effect, (ii) a Favorable Opinion of Bond Counsel, (iii) a Rating Confirmation Notice from each Rating Agency and (iv) written evidence satisfactory to the Bank of the provision for purchase from the Bank of all Bank-Owned Bonds, at a price equal to the principal amount thereof plus accrued and unpaid interest, and payment of all amounts due it under the Reimbursement Agreement on or before the effective date of such Alternate Letter of Credit, then the Trustee shall accept such Alternate Letter of Credit on the Substitution Date and shall surrender the Letter of Credit then in effect to the Bank. The Series 2008A Bonds will be subject to mandatory tender for purchase on the Substitution Date. See “THE SERIES 2008A BONDS – Mandatory Tender for Purchase – *Mandatory Purchase on Substitution of Letter of Credit.*”

THE LETTER OF CREDIT AND THE REIMBURSEMENT AGREEMENT

The following information has been provided by the Bank for use in this Official Statement. Such information has not been confirmed or verified by IRWD. IRWD makes no representation as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof. Further, no representation is made herein that the information contained or incorporated herein by reference is correct as of any time subsequent to the date hereof.

The Irrevocable Letter of Credit (the “Letter of Credit”) will be issued by the Bank pursuant to the Reimbursement Agreement dated as of April 1, 2008 (the “Reimbursement Agreement”), between IRWD and the Bank. The following summarizes certain provisions of the Letter of Credit and the Reimbursement Agreement, to which documents reference is made for the complete provisions thereof. The provisions of any substitute letter of credit and related reimbursement agreement may be different from those summarized below.

Letter of Credit

The Series 2008A Bonds are secured by the Letter of Credit issued by the Bank pursuant to the Reimbursement Agreement. The initial stated amount authorized to be drawn under the Letter of Credit is \$61,105,853, which amount may be increased or reduced as provided for in the Letter of Credit. The Trustee shall draw upon the Letter of Credit to make payment with respect to the principal or purchase of, or interest on, the Series 2008A Bonds.

Upon each payment under the Letter of Credit with respect to principal of the Series 2008A Bonds, the principal portion of the Letter of Credit shall be decreased by the amount of the payment and immediately thereafter the interest portion shall be decreased proportionally. Upon receipt of a notice from the Trustee stating that Series 2008A Bonds owned by or pledged

to the Bank have been sold or transferred and that the Bank has notified the Trustee and the Paying Agent that it has been reimbursed in full for such drawings made pursuant to a tender of Series 2008A Bonds, the principal portion and the interest portion shall be reinstated by the amounts by which they were decreased upon such payment, unless the Bank has delivered a notice to the Trustee that an Event of Default under the Reimbursement Agreement has occurred and is continuing. The interest portion of the Letter of Credit shall be decreased upon, and to the extent of, each payment under the Letter of Credit with respect to an interest drawing. Upon payment under the Letter of Credit pursuant to such demand, the interest portion of the Letter of Credit shall be automatically and immediately reinstated effective as of the open of business at the Bank's New York office on the sixth day following the honoring of such drawing by the amount by which it was decreased upon such payment, unless the Trustee shall have received from the Bank notice before the close of business at the Bank's New York office on the fifth day following such drawing that the Bank has not been reimbursed in full for such drawing or any other Event of Default under the Reimbursement Agreement has occurred and is continuing.

The Letter of Credit shall expire at 5:00 p.m. New York City time on the date which is the earliest to occur of: (i) April 22, 2011, any extension of such date pursuant to an amendment of the Letter of Credit, or any earlier date on which the Letter of Credit shall terminate, expire or be cancelled, (ii) the date specified by the Trustee in a notice as being the date that all outstanding Series 2008A Bonds have been paid or will be paid with funds deposited with the Trustee, (iii) five (5) Business Days following the date specified by the Trustee in a notice as being the date that the Trustee has received an alternate Letter of Credit meeting the requirements of the Indenture, (iv) the earlier of (a) five (5) Business Days following the date (the "Conversion Date") specified by the Trustee in a notice as being the date that all outstanding Series 2008A Bonds have been converted to a Mode other than the Daily Mode, the Weekly Mode or the Monthly Mode and (b) the date on which the Bank honors a drawing under the Letter of Credit on or after the Conversion Date, (v) the date on which the Bank honors a demand presented under the Letter of Credit in connection with the acceleration of the maturity of the Series 2008A Bonds, (vi) the date fifteen (15) days after the date on which the Trustee receives written notice from the Bank that it is terminating the Letter of Credit by reason of the occurrence and continuance of an Event of Default under the Reimbursement Agreement and directing the Trustee to accelerate the Series 2008A Bonds and (vii) the date fifteen (15) days after the date on which the Trustee receives written notice from the Bank that it is terminating the Letter of Credit by reason of the occurrence and continuance of an Event of Default under the Reimbursement Agreement and directing the Trustee to cause a mandatory tender of the Series 2008A Bonds.

Reimbursement Agreement

Events of Default. Each of the following events, acts or occurrences shall constitute an "Event of Default" under the Reimbursement Agreement. Reference is made to the Reimbursement Agreement for a complete listing of all Events of Default.

- (a) (i) default in the payment when due of principal of any Liquidity Advance (as defined in the Reimbursement Agreement) or reimbursement to the Bank for drawings for principal of any Series 2008A Bonds, (ii) default in the payment when due of any interest on any Liquidity Advance or reimbursement to the Bank for drawings for interest on the Series 2008A Bonds or (iii) default in the payment for a period of three (3)

days following the due date of any other obligation owing by IRWD under the Reimbursement Agreement; or

(b) IRWD shall default in the performance or observance of certain terms, covenants or agreements in the Reimbursement Agreement; or

(c) IRWD shall default in the performance or observance of any term, covenant, condition or agreement on its part to be performed or observed under the Reimbursement Agreement (and not constituting an Event of Default under any other clause under this subheading "Events of Default") and such default shall continue unremedied for ten (10) days after written notice thereof shall have been given to IRWD by the Bank, unless, in the case of any default, IRWD shall have notified the Bank within such 10-day period that IRWD has commenced curing such default within such 10-day period, provided that no Event of Default shall occur under this paragraph (i) only so long as IRWD is diligently prosecuting such cure to completion in a manner satisfactory to Bank, and, (ii) if so requested by the Bank not less than 30 days after the occurrence of such default, IRWD shall deliver to the Bank evidence satisfactory to the Bank that such default is curable and that IRWD is diligently prosecuting such cure; or

(d) any of IRWD's representations or warranties made in the Reimbursement Agreement or in any statement or certificate at any time given by or on behalf of IRWD pursuant to the Reimbursement Agreement or in connection with the Reimbursement Agreement, the Financing Documents (as defined in the Reimbursement Agreement) and/or the Series 2008A Bonds is false or misleading in any material respect when made or deemed made; or

(e) IRWD shall either (i) become insolvent or generally fail to pay, or admit in writing its inability to pay, its debts as they become due; or (ii) voluntarily commence any proceeding or file any petition under any bankruptcy, insolvency or similar law seeking dissolution or reorganization or the appointment of a receiver, trustee, custodian or liquidator for itself or a substantial portion of its property, assets or business or to effect a plan or other arrangement with its creditors, or shall file any answer admitting the jurisdiction of the court and the material allegations of an involuntary petition filed against it in any bankruptcy, insolvency or similar proceeding, or shall be adjudicated bankrupt, or shall make a general assignment for the benefit of creditors, or shall consent to, or acquiesce in the appointment of, a receiver, trustee, custodian or liquidator for itself or a substantial portion of its property, assets or business; or (iii) take any action for the purpose of effectuating any of the foregoing; or

(f) a moratorium shall have been declared or announced by any applicable governmental authority (whether or not in writing) with respect to any debt of IRWD; or

(g) involuntary proceedings or an involuntary petition shall be commenced or filed against IRWD under any bankruptcy, insolvency or similar law seeking the dissolution or reorganization of IRWD or the appointment of a receiver, trustee, custodian or liquidator for IRWD or of a substantial part of the property, assets or business of IRWD, or any writ, judgment, warrant of attachment, execution or similar process shall be issued or levied against a substantial part of the property, assets or

business of IRWD, and such proceedings or petition shall not be dismissed, or such writ, judgment, warrant of attachment, execution or similar process shall not be released, vacated or fully bonded, within thirty (30) days after commencement, filing or levy, as the case may be; or

(h) an “Event of Default” under the Indenture (and not constituting an Event of Default under any other clause under this subheading “Events of Default”) shall have occurred and be continuing; or

(i) IRWD shall fail to make any payment in respect of any Parity Debt (as defined in the Reimbursement Agreement), General Obligations (as defined in the Reimbursement Agreement) or any debt of IRWD secured by a first pledge and charge and lien upon the Net Revenues (as defined in the Reimbursement Agreement) in excess of \$5,000,000 outstanding (excluding obligations under the Reimbursement Agreement), or any interest or premium thereof, when due (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise) and such failure shall continue after the applicable grace period, if any, specified in the agreement or instrument relating thereto; or any other default under any agreement or instrument relating thereto, or any other event, shall occur and shall continue after the applicable grace period, if any, specified in such agreement or instrument, if the effect of such default or event is to accelerate, or to permit the acceleration of, the maturity thereof; or any such Parity Debt, General Obligations or any debt of IRWD secured by a first pledge and charge and lien upon Net Revenues shall be properly declared to be due and payable, or required to be prepaid (other than by a regularly scheduled required prepayment), prior to the stated maturity thereof; or

(j) a judgment or order for the payment of money in excess of \$5,000,000 shall be rendered against IRWD and not satisfied by IRWD and either (i) enforcement proceedings shall have been commenced by any creditor upon such judgment or order or (ii) there shall be any period of ninety (90) consecutive days during which a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, shall not be in effect; or

(k) any material provision of the Reimbursement Agreement or any other Financing Document to which IRWD is a party shall at any time for any reason cease to be valid and binding on IRWD, or shall be declared to be null and void, or the validity or enforceability thereof shall be contested by IRWD, or a proceeding shall be commenced by any governmental agency or authority having jurisdiction over IRWD seeking to establish the invalidity or unenforceability thereof, or IRWD shall deny that it has any or further liability or obligation under the Reimbursement Agreement or any other Financing Document to which it is a party; or

(l) any of the funds or accounts established pursuant to the Indenture or any funds or accounts on deposit, or otherwise to the credit of, such funds or accounts shall become subject to any stay, writ, judgment, warrant of attachment, execution or similar process by any of the creditors of IRWD and such stay, writ, judgment, warrant of attachment, execution or similar process shall not be released, vacated or stayed within fifteen (15) days after its issue or levy; or

(m) the long-term unenhanced rating assigned to any debt of IRWD secured by a first pledge and charge and lien on Net Revenues by any Rating Agency (as defined in the Reimbursement Agreement) shall fall below Investment Grade (as defined in the Reimbursement Agreement); or

(n) any “event of default” under any agreement between IRWD and the Bank shall have occurred and be continuing.

Remedies. Upon the occurrence and during the continuance of any Event of Default, the Bank at its option, may, upon notice to the Trustee and IRWD, do any one or more of the following:

(a) by written, electronic or telephonic notice, declare all indebtedness arising under the Reimbursement Agreement immediately due and payable, and the same shall thereupon become and be due and payable without demand, notice of demand, presentment, protest, notice of protest, notice of dishonor, notice of non-payment, or further notice of any kind, all of which are hereby expressly waived, and credit any sums received thereafter in such manner as it elects upon such indebtedness; provided, however, that such application of sums so received shall not serve to waive or cure any default existing under any of the Financing Documents nor to invalidate any notice of default or any act done pursuant to such notice and shall not prejudice any rights of the Bank or the Trustee;

(b) require, in accordance with the Indenture, the Trustee to accelerate payment of all Series 2008A Bonds and interest accrued thereon as provided in the Indenture or to exercise any other right or power provided to the Trustee in the Indenture;

(c) require, in accordance with the Indenture, the Trustee to give notice of mandatory tender of the Series 2008A Bonds and to purchase all Series 2008A Bonds and interest accrued thereon and to register the Series 2008A Bonds in the name or at the direction of the Bank thereby causing the Letter of Credit to expire fifteen (15) days thereafter; and/or

(d) exercise any or all rights provided or permitted by law or in equity or granted pursuant to any of the Financing Documents in such order and in such manner as the Bank may, in its sole judgment, determine; provided, however, that upon the occurrence of any event specified in paragraphs (e), (f) or (g) under the subheading “Events of Default” above, all indebtedness arising under or secured by the Reimbursement Agreement shall automatically and immediately become and be due and payable without demand, notice of demand, presentment, protest, notice of protest, notice of dishonor, notice of non-payment or further notice of any kind, all of which are hereby expressly waived.

THE BANK

The following information has been provided by the Bank for use in this Official Statement. Such information has not been confirmed or verified by IRWD. IRWD makes no representation as to the accuracy or adequacy of such information or as to the absence of

material adverse changes in such information subsequent to the date hereof. Further, no representation is made herein that the information contained or incorporated herein by reference is correct as of any time subsequent to the date hereof.

Landesbank Baden-Württemberg

LBBW is a public law institution (*rechtsfähige Anstalt des öffentlichen Rechts*) owned and controlled jointly by the State of Baden-Württemberg, the Savings Bank Association of Baden-Württemberg (the Association of Baden-Württemberg), the City of Stuttgart, the Savings Bank and Giro Association of Rheinland-Pfalz (SGV-RP), and Landeskreditbank Baden-Württemberg (L-Bank). Baden-Württemberg holds 35.611% of LBBW's nominal capital, the Association of Baden-Württemberg holds 35.611%, Stuttgart holds 18.932%, the SGV RP holds 4.923% and L-Bank holds 4.923%. With a balance sheet total of approximately € 428.3 billion at December 31, 2006, the LBBW Group is among the ten largest German banks and among the 50 largest credit institutions in the world.

The LBBW Act (*Gesetz über die Landesbank Baden-Württemberg*; the "LBBW Act") authorizes LBBW to engage in all types of banking and financial service activities as well as in all other activities that are useful to LBBW, including issuing mortgage Pfandbriefe (*Hypothekendarlehen*), public sector Pfandbriefe (*Öffentliche Pfandbriefe* or *Kommunalobligationen*), and other debt obligations. In addition, LBBW is the central bank for the savings banks (*Sparkassen*) in the State of Baden-Württemberg. LBBW also performs the activities of a savings bank through its brand "BW-Bank" in the territory of Stuttgart.

Furthermore, LBBW together with its 100 per cent subsidiary Landesbank Rheinland-Pfalz is the central banking institution for the savings banks in Rheinland-Pfalz. As of April 1, 2008, Sachsen LB was integrated as a dependent institution without legal standing ("unselbstständige Anstalt des öffentlichen Rechts") of LBBW into Landesbank Baden-Württemberg (LBBW). All claims and liabilities of Sachsen LB have thus been assumed by LBBW. Under the new brand name Sachsen Bank, LBBW will pool Sachsen LB's SME business and BW-Bank's business with corporate and high-net-worth private clients in Eastern Germany. Sachsen Bank will also be responsible for shaping the LBBW Group's future market positioning in Poland and the Czech Republic.

As a German "universal bank," LBBW provides a comprehensive range of commercial banking and investment banking services to businesses, other banking institutions, governmental entities, counties, municipalities, other organizations and individuals. LBBW makes loans, extends guaranties, underwrites securities, deals and trades in debt and equity securities and makes equity investments. LBBW underwrites, trades in, and acts as paying agent and fiscal agent with respect to debt securities issued by the State of Baden-Württemberg.

Landesbank Baden-Württemberg, New York Branch

The New York Branch of LBBW was licensed by the Banking Department of New York State in December 1998, and amended its license in April 1999 to reflect the merger that created LBBW. The Branch is not required to be and is not a member of the Federal Deposit Insurance Corporation (the "FDIC"). The Branch is engaged in numerous business activities such as extending credit and providing banking services to the middle market clientele of Baden-

Württemberg and their North American subsidiaries, as well as to international corporations. The Branch is also involved in the financing of commercial real estate in select U.S. cities and in public finance with U.S. municipal entities. The Branch also engages in capital markets and asset management activities, which include the management of an investment portfolio consisting entirely of investment-grade notes, including floating- and fixed-rate asset-backed securities, collateralized obligations, and senior debt medium-term notes issued by higher quality banks, finance companies, and other corporate issuers. The Branch funds itself with corporate, bank and government entity deposits, and the issuance of certificates of deposit, medium-term notes and other obligations. The Branch is active in both the inter-bank and corporate markets.

LBBW became a financial holding company on August 7, 2006. So long as it maintains that designation, it is able to engage in a broad range of financial activities, including underwriting and dealing in securities, in the United States. In addition, LBBW recently organized LBBW Securities, LLC and registered it as a broker-dealer in the United States.

Phase-out of Guaranty Obligation and Maintenance Obligation

In 2001 and 2002, the European Commission, the Federal Republic of Germany and the German federal states (including Baden-Württemberg) reached agreements to make the Guaranty Obligation (*Gewährträgerhaftung*) and Maintenance Obligation (*Anstaltslast*) of the owners of German Landesbanken compatible with the state aid provisions of the Treaty Establishing the European Community, as amended by the Treaty on European Union. Under these agreements, Germany and its federal states began to phase out the Guaranty and Maintenance Obligations. On July 18, 2005, this phase-out was completed. Obligations of LBBW after that date are no longer backed by the Maintenance Obligation of its owners. Obligations of LBBW incurred after that date are no longer backed by the Guaranty Obligation of its owners. Obligations incurred by LBBW on or before July 18, 2001 are covered by the Guaranty Obligation until they mature. Obligations incurred by LBBW after July 18, 2001 and on or before July 18, 2005 that mature on or before December 31, 2015 are covered the Guaranty Obligation until maturity.

Furthermore, LBBW became capable of being subject to insolvency proceedings after July 18, 2005.

LITIGATION

There is no action, suit or proceeding known to be pending or threatened, restraining or enjoining IRWD in the execution or delivery of, or in any way contesting or affecting the validity of, the Series 2008A Bonds. There is no litigation known to be pending, or to the knowledge of IRWD, threatened, questioning the existence of IRWD or the title of the officers of IRWD to their respective offices.

There exist lawsuits and claims against IRWD, which are incidental to the ordinary course of operations of IRWD's water and sewer systems and related activities. In the view of IRWD's management and of the General Counsel to IRWD, there is no litigation, present or pending, which will individually or in the aggregate materially impair IRWD's ability to service its indebtedness or to expend the proceeds for the purposes for which the Series 2008A Bonds are authorized or which will have a material adverse effect on the business operations of IRWD.

RATINGS

It is expected that Standard & Poor's Ratings Services, Moody's Investors Service, Inc. and Fitch Ratings will assign their municipal bond ratings of "A+/A-1," "Aa1/VMIG 1" and "A+/F1+," respectively, to the Series 2008A Bonds, with the understanding that simultaneously with the delivery of the Series 2008A Bonds the Letter of Credit will be issued by the Bank to support the payment of the principal and tender price of, and interest on, the Series 2008A Bonds.

Each such rating should be evaluated independently of any other rating. No application has been made to any other rating agency in order to obtain additional ratings on the Series 2008A Bonds. The credit enhanced ratings on the Series 2008A Bonds reflect the respective rating agency's current assessment of the creditworthiness of the Bank and its ability to pay draws under the Letter of Credit. Any further explanation as to the significance of the above ratings may be obtained from the applicable rating agency.

The above described ratings are not recommendations to buy, sell or hold the Series 2008A Bonds, and such ratings may be subject to revision or withdrawal at any time by one or both of the rating agencies. The Underwriter undertakes no responsibility either to bring to the attention of the owners of the Series 2008A Bonds the downward revision or withdrawal of any rating obtained or to oppose any such revision or withdrawal. Any downward revision or withdrawal of any of the ratings may have an adverse effect on the market price of the Series 2008A Bonds.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP and Bowie, Arneson, Wiles & Giannone, co-bond counsel to IRWD ("Co-Bond Counsel"), based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2008A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State of California personal income taxes. Co-Bond Counsel are of the further opinion that interest on the Series 2008A Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Co-Bond Counsel observe that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Co-Bond Counsel is set forth in APPENDIX E hereto.

Series 2008A Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Series 2008A Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Series 2008A Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's basis in a Premium Series 2008A Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium

Series 2008A Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Series 2008A Bonds. IRWD has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Series 2008A Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Series 2008A Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series 2008A Bonds. The opinion of Co-Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Co-Bond Counsel have not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Co-Bond Counsel's attention after the date of issuance of the Series 2008A Bonds may adversely affect the value of, or the tax status of interest on, the Series 2008A Bonds. Accordingly, the opinion of Co-Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Co-Bond Counsel are of the opinion that interest on the Series 2008A Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Series 2008A Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Co-Bond Counsel express no opinion regarding any such other tax consequences.

Future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Series 2008A Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislative proposals, clarification of the Code or court decisions (including the matter described below) may affect the market price for, or marketability of, the Series 2008A Bonds. Prospective purchasers of the Series 2008A Bonds should consult their own tax advisers regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Co-Bond Counsel express no opinion.

On November 5, 2007, the United States Supreme Court heard an appeal in the case of *Kentucky v. Davis*, in which a Kentucky state court had ruled that the United States Constitution prohibited the state from providing a tax exemption for interest on bonds issued by Kentucky and its political subdivisions but taxing interest on obligations issued by other states and their political subdivisions. California law is similar to Kentucky in taxing interest on out-of-state bonds. A ruling by the Supreme Court against the Kentucky law would not change the exemption from California personal income taxes of the interest on the Series 2008A Bonds, but the value of the Series 2008A Bonds may be adversely affected by changes in the demand for California-origin bonds. There can be no assurance as to the outcome of the *Davis* case, the potential impact on market price or marketability of the Series 2008A Bonds which may result from a decision, or the likelihood of any future action by Congress on this subject.

The opinion of Co-Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Co-Bond Counsel's judgment as to the proper treatment of the Series 2008A Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service (the "IRS") or the courts. Furthermore, Co-Bond Counsel cannot give and have not given any opinion or assurance about the future activities of IRWD, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. IRWD has covenanted, however, to comply with the requirements of the Code.

Co-Bond Counsel's engagement with respect to the Series 2008A Bonds ends with the issuance of the Series 2008A Bonds, and, unless separately engaged, Co-Bond Counsel are not obligated to defend IRWD or the Beneficial Owners regarding the tax-exempt status of the Series 2008A Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than IRWD and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which IRWD legitimately disagrees may not be practicable. Any action of the IRS, including but not limited to selection of the Series 2008A Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues, may affect the market price for, or the marketability of, the Series 2008A Bonds, and may cause IRWD or the Beneficial Owners to incur significant expense.

A copy of the proposed form of opinion of Co-Bond Counsel is attached hereto as APPENDIX E.

REMARKETING AGENT

Lehman Brothers Inc. has been appointed to serve as remarketing agent for the Series 2008A Bonds (the "Remarketing Agent"). The Remarketing Agent will carry out the duties and obligations provided for the Remarketing Agent under and in accordance with the provisions of the Indenture and the Remarketing Agreement, dated as of April 1, 2008, by and between IRWD and the Remarketing Agent executed in connection with the Series 2008A Bonds. The principal office of the Remarketing Agent (for purposes of its responsibilities as Remarketing Agent) is New York, New York.

UNDERWRITING

The Series 2008A Bonds are being purchased pursuant to a purchase contract between IRWD and Lehman Brothers Inc. (the "Underwriter"). The Underwriter has agreed to purchase the Series 2008A Bonds at an aggregate purchase price of \$60,125,320.39 (representing the principal amount thereof less underwriter's discount of \$89,679.61). The purchase contract provides that the Underwriter will purchase all of the Series 2008A Bonds if any are purchased. The obligation of the Underwriter to make such purchase is subject to certain terms and conditions set forth in the purchase contract.

The Underwriter may offer and sell the Series 2008A Bonds to certain dealers and others at prices or yields below those stated on the cover page of this Official Statement. The offering prices or yields may be changed from time to time by the Underwriter.

APPENDIX A

IRVINE RANCH WATER DISTRICT

General

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

IRWD serves a 178-square-mile area, which includes all of the City of Irvine and portions of the cities of Tustin, Newport Beach, Costa Mesa, Orange and Lake Forest, as well as certain unincorporated areas of Orange County. Extending from the Pacific Coast to the foothills, IRWD’s region is semi-arid with a mild climate and an average annual rainfall of approximately 12 inches. IRWD serves a total estimated population of 322,000 through approximately 91,000 water and 86,000 sewer service connections. The number of service connections has increased by approximately 68% over the last decade.

IRWD has 16 water improvement districts and 17 sewer improvement districts covering specific areas within IRWD’s boundaries, some of them overlapping, each of which is governed by the Act. IRWD (or its predecessor district or the Orange County Local Agency Formation Commission, in the case of an area included in IRWD by consolidation with another district) formed the improvement districts in order to allocate funding responsibility for capital facilities to the area which will benefit from such capital facilities and to separate areas on the basis of projected timing of development so that capital facilities construction can be matched to the development approval decisions of the respective local agency that makes them. Some of the improvement districts share in the funding of IRWD’s regional facilities which the improvement districts will use in common, such as major water importation facilities.

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

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

Board of Directors and General Manager

Pursuant to legislation enacted in 1979, IRWD's Board of Directors consists of five Directors elected by resident voters for staggered four-year terms. The policies of the Board of Directors are administered by the General Manager of IRWD.

Board of Directors

The present Directors are:

Darryl Miller. Mr. Miller was initially elected to IRWD's Board of Directors in 1984. Mr. Miller served as President of the Board from December 1995 to 2000 and again in 2005 and currently serves as President. He also serves on IRWD's Water Resources and Communication Policy standing committees as well as on numerous ad hoc committees. Mr. Miller is a hydrogeologist with over 35 years of experience in water resources and water quality issues. Mr. Miller is the former General Manager of the West Basin and Central Basin Municipal Water Districts. Mr. Miller was instrumental in the formulation of the U. S. Desalination Coalition and serves on the Association of California Water Agencies Desalination Subcommittee and the Department of Water Resources Proposition 50 advisory committee for distributing desalination funding. Mr. Miller was also a member of the California State Desalination Task Force, the State Recycled Water Task Force and the State Landscape Task Force and serves as a director of the Orange County Sanitation District, the WaterReuse Association and the National Water Research Institute. Additionally, Mr. Miller is the newly appointed Executive Director of the Urban Water Institute.

Mary Aileen Matheis. Ms. Matheis was initially appointed to IRWD's Board of Directors in 1988 to fill a vacancy and has since been elected to subsequent terms. Ms. Matheis served as President in 2001 and as Vice-President in 2005, and currently serves as Vice-President. She also serves on IRWD's Finance and Personnel Committee. Ms. Matheis is a practicing lawyer and member of the California Bar and is also admitted to practice in the Supreme Court of the United States and the United States Tax Court. Ms. Matheis holds a Bachelor's Degree and Masters Degree in Communications and she received her Juris Doctorate from Western State University School of Law and was admitted to the California Bar in 1982. Ms. Matheis' activities in other water areas include service on the Legal Affairs Committee of the Association of California Water Agencies and a member of Independent Special Districts of Orange County Executive Committee. Ms. Matheis is a member of the Colorado River Water Users Association and the Colorado River Foundation. Ms. Matheis is also an IRWD representative to the Southern California Water Committee. Ms. Matheis is active in the Orange County Bar Association, a member of the Real Estate Section Executive Committee and the Probate and Estate Planning Section. Ms. Matheis is also on the arbitration panel and the pro tem panel for the Orange County Superior Court.

Douglas J. Reinhart. Mr. Reinhart was appointed to the IRWD Board of Directors in 2004 to fill a vacancy and was subsequently elected to a four-year term in 2006 when he ran unopposed for election. Mr. Reinhart served as Vice President in 2006 and as President in 2007. He currently serves on IRWD's Finance and Personnel Committee and Engineering and Operations Committee. Mr. Reinhart is a registered civil engineer in both California and Arizona and a registered control systems engineer in California with over 30 years of experience

in the private sector directing projects in water, wastewater and other infrastructure. Mr. Reinhart was the president and an owner of ASL Consulting Engineers before its acquisition by Tetra Tech in 1999. Mr. Reinhart then served as the Divisional Executive Vice President for Tetra Tech for the western United States before starting a consulting business in 2004. Mr. Reinhart holds a bachelor's degree in civil engineering from the Missouri School of Mines and Metallurgy. Mr. Reinhart has served on the Board of Trustees of the Southern California Water Committee, the American Water Works Association Desalination Committee and the Association of California Water Agencies Water Reuse Committee. In addition, Mr. Reinhardt is also a member of the American Society of Civil Engineers and the American Public Works Association.

Peer Swan. Mr. Swan was elected to the IRWD Board of Directors in 1979. After a term as Vice-President of the Board, the Directors elected him President, a position he held from December 1981 until December 1995 and again in 2006. Mr. Swan currently serves as chairman of the Finance and Personnel Committee and as a member of the Water Resources Policy and Communications Committee and several ad hoc committees. Mr. Swan's community and professional involvement includes membership as the Vice President of the Board of the Water Advisory Committee of Orange County, President of the Board of San Joaquin Wildlife Sanctuary, member of the Great Park Advisory Board and member of the Steering Committee of the Southern California Water Dialog Committee. Mr. Swan is active in the Association of California Water Agencies, where he serves as a board member of Region 10 and participates in several committees. Mr. Swan was also a Founding Director of the Board of the National Water Research Institute where he was chairman for four years and a Director to the Orange County Sanitation District where he was Vice Chairman for six years. Mr. Swan was the Treasurer of the Pacific Scientific Company prior to its acquisition in early 1998 and a member of the Board of Directors of the Southern California Bank and its parent SC Bancorp until its acquisition in 1997. Mr. Swan is a long time member of both the National Audubon Society and its local chapter (Sea & Sage) and the Sierra Club.

John B. Withers. Mr. Withers was initially appointed to the IRWD Board of Directors in 1989 to fill a vacancy and has since been elected to subsequent terms. Mr. Withers served as President of the Board in 2004 and currently serves on the Engineering and Operations Committee and various ad hoc committees. Mr. Withers is an affiliate with California Strategies in Irvine, a strategic government relations firm. In past positions, Mr. Withers has served as a Senior Project Manager for Lewis Operating Corp. and as Director of Water Resources for Psomas & Associates, a civil engineering and planning firm based in Costa Mesa. Mr. Withers has served as Director of Governmental Affairs for the Orange County Region of the Building Industry Association of Southern California and as a legislative advocate for California Building Industry Association in Sacramento. Mr. Withers has served as Commissioner to the Orange County Local Agency Formation Commission since 1993. Mr. Withers also serves as the chairman of the Santa Ana Regional Water Quality Control Board, having been appointed by the Governor in 1992. Mr. Withers was a board member of the National Water Research Institute for six years. A native Southern Californian, Mr. Withers received his B.A. from UCLA in economics with a specialization in urban studies in 1979 and received a master's degree in urban studies from Occidental College in 1988.

General Manager

Paul Jones. Mr. Jones, the General Manager of IRWD, heads a staff of approximately 300 employees. Mr. Jones was appointed to this position in February, 1999. Mr. Jones was previously the General Manager of both West Basin Municipal Water District and Central Basin Municipal Water District in Carson, California. There he was responsible for the operation of two wholesale water districts governed by separate elected boards. Mr. Jones previously worked for a private environmental engineering firm and served as senior engineer and assistant to the general manager at Municipal Water District of Orange County. Mr. Jones also served as director of regional infrastructure planning and manager of infrastructure project engineering with The Irvine Company. Mr. Jones received his bachelor of science degree in civil engineering with an emphasis in water resources from California State Polytechnic University, Pomona and is a Registered Civil Engineer in the State of California.

Employees

IRWD currently employs approximately 300 persons, including full-time and temporary employees (of whom approximately 150 persons work at the Water, Sewer and Reclamation Operations Center and approximately 150 persons work at the Headquarters Building). Currently, IRWD does not have any part-time employees. Employees of IRWD are not represented by a union. IRWD has not experienced any strike or other labor actions.

Pension Benefits

IRWD contributes to the California Public Employees Retirement System ("CalPERS"), an agent multiple-employer public employee defined benefit pension plan for all of IRWD's full-time and certain of its temporary employees. CalPERS provides retirement, disability benefits and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California, including IRWD.

Required employer and employee contributions are determined from rates established by CalPERS based upon various actuarial assumptions which are revised annually. IRWD currently funds the normal pension costs, which are determined by CalPERS using the Entry Age Normal Actuarial Cost Method, as well as an amortization of IRWD's unfunded actuarial liability. For the Fiscal Year ended June 30, 2007, IRWD's annual pension cost of approximately \$3.7 million was comprised of required employer and employee contributions of approximately \$2.2 million and \$1.5 million, respectively, and equaled the actual contributions made by IRWD as determined by an actuarial valuation of the plan as of June 30, 2005. Participants are required to contribute seven percent of their annual covered salary under the CalPERS plan; IRWD makes the contributions required of IRWD employees on their behalf and for their account. Benefit provisions and all other requirements are established by State statute and IRWD's Board of Directors.

IRWD provides pension benefits for all of its part-time (if any) and certain of its temporary employees through a defined contribution plan, in lieu of providing social security benefits. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. All part-time and certain temporary employees are eligible to

participate from the date of employment with IRWD, provided the statutory minimum contribution of at least 7.5% is made to the plan. For the Fiscal Year ended June 30, 2007, IRWD's payroll covered by the plan was approximately \$537,600. The eligible employees contributed approximately \$40,300 (the required 7.5% of current covered payroll) and IRWD made no contributions during such Fiscal Year.

Other Post-Employment Benefits

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

IRWD currently has three OPEB programs: PEMCHA Premiums, a Retiree Health Costs Assistance Program, and a Retiree Death Benefit Life Insurance Program. Under the first program, IRWD pays the required healthcare coverage under the California Public Employees Medical and Hospital Care Act (PEMCHA), commonly referred to as PERS Health. To qualify, employees must retire from IRWD and begin drawing CalPERS retirement benefits. Participation in PEMCHA is financed in part by IRWD through a contribution of \$97.00 per employee per month (at current rates). As part of the Retiree Health Costs Assistance Program, IRWD provides retirees who have attained age 55 and have completed at least 10 years of service with IRWD with reimbursement of eligible healthcare costs of up to \$600 per month for up to five years, with the reimbursement amount and duration determined by length of service with IRWD. Finally, the Retiree Death Benefit Only Plan provides retirees who participate in IRWD's split-dollar life plan while in active employment with IRWD with a lump-sum death benefit equal to their annual base salary in effect at the time of retirement. To qualify, a retiree must have retired from IRWD, be at least 50 years old, have completed at least five continuous years of service with IRWD, and must be drawing retirement benefits from CalPERS.

OPEB costs have traditionally been accounted for and financed from IRWD's Annual Operating Budget as part of its benefits expense on a pay-as-you-go basis. The budgeted amount for IRWD's OPEB in Fiscal Year 2007-08 is expected to total approximately \$460,000.

IRWD is required to comply with the accounting and reporting requirements of GASB 45 commencing with the Fiscal Year ending June 30, 2008. According to an actuarial valuation prepared for IRWD by Demsey, Filliger & Associates, the accrued, unfunded liability for IRWD's OPEB as of July 1, 2007 is approximately \$10 million. The Annual Required Contribution ("ARC") is approximately \$1.1 million in Fiscal Year 2007-08. The ARC is calculated assuming that the accrued, unfunded liability will be amortized over the next 30 years,

benefits will remain constant, and funding in excess of actual benefit costs will be invested at a 5.25% annual return, and with other assumptions regarding medical cost inflation.

IRWD is investigating ways to reduce its accrued unfunded liability for OPEB, including retirement life insurance benefit alternatives and revising its eligibility requirements.

Budget Process

Prior to July 1 of each year, the General Manager prepares a budget for the fiscal year commencing July 1 and ending on the succeeding June 30 (the "Fiscal Year"). Following the adoption of the budget by the Board of Directors, the Board of Directors approves a schedule of rates for such Fiscal Year based on the budget approved by the Board of Directors. The budget for the Fiscal Year ending June 30, 2008 was approved on April 30, 2007.

Long-Term Obligations

As of March 31, 2008, IRWD had \$288.2 million of outstanding *ad valorem* assessment bonds on behalf of 25 improvement districts, including the Improvement Districts. Although *ad valorem* assessment bonds, including the Series 2008A Bonds, are generally secured by *ad valorem* assessments on property within the related improvement districts, and are not by their terms payable from the Revenues described below under "2002 Installment Sale Agreements," IRWD may elect, and from time to time has elected, to apply such Revenues (to the extent remaining after the payment of debt service on obligations on a parity with and subordinated to the 2002 Installment Sale Agreements described below) to the payment of debt service on outstanding *ad valorem* assessment bonds. There is no assurance that such alternate sources for debt service payments will be available or continue to be available in succeeding years, or that if they are available, IRWD will elect to use them for debt service payments.

In addition to the *ad valorem* assessment bonds (including the Series 2008A Bonds), IRWD has a number of other long-term obligations outstanding, as described below. See also Table 2 (Revenues, Expenses and Debt Service) for additional information regarding IRWD's revenues, expenses and long-term obligations.

THE IRWD LONG-TERM OBLIGATIONS DESCRIBED BELOW ARE NOT PAYABLE FROM AD VALOREM ASSESSMENTS OF THE IMPROVEMENT DISTRICTS GENERALLY OR FROM THE BOND ASSESSMENTS AND CHARGES IN PARTICULAR. MOREOVER, NEITHER THE REVENUES SECURING PAYMENT OF ANY SUCH OBLIGATIONS NOR ANY REVENUES RECEIVED PURSUANT TO SUCH OBLIGATIONS CONSTITUTE BOND ASSESSMENTS AND CHARGES, AND NO SUCH REVENUES ARE PLEDGED TOWARD PAYMENT OF THE SERIES 2008A BONDS.

- 2002 Installment Sale Agreements. In 2002, IRWD entered into two Installment Sale Agreements with the Irvine Ranch Water District Water Service Corporation with respect to the repayment by IRWD of certain certificates of participation (collectively, the "2002 Installment Sale Agreements"). As of March 1, 2008, the 2002 Installment Sale Agreements are outstanding in the amount of \$68.7 million and are payable solely from certain water, sewer and reclaimed water income,

rents, rates, fees, charges and other revenues of IRWD (“Revenues”) after payment of operation and maintenance costs (“Net Revenues”). IRWD covenanted in the 2002 Installment Sale Agreements not to incur any obligations payable from Net Revenues prior to the 2002 Installment Sale Agreements. IRWD intends in the current Fiscal Year to refund the obligations represented by the 2002 Installment Sale Agreements with a similar principal amount of installment sale agreement obligations secured by a pledge of Revenues and payable from Net Revenues at the same lien priority as the 2002 Installment Sale Agreements.

- 1997 State Loan. In 1997, IRWD entered into a loan contract with the State of California (the “1997 State Loan”) to fund reclaimed water projects. The 1997 State Loan is currently outstanding in an approximate aggregate principal amount of \$2,329,743 and matures in 2019. Pursuant to the terms of the 1997 State Loan, IRWD’s obligation to pay debt service on the 1997 State Loan is payable from Net Revenues on a parity with the 2002 Installment Sale Agreements.
- Prior Reimbursement Agreements. In connection with IRWD’s prior issuances of *ad valorem* assessment bonds and IRWD’s 1986 Installment Purchase Agreement described below, IRWD has entered into several reimbursement agreements (the “Prior Reimbursement Agreements”) with various letter of credit banks (the “Prior Banks”). Pursuant to the terms of the Prior Reimbursement Agreements, IRWD’s obligations to reimburse the Prior Banks will be payable from Net Revenues on a parity with the 2002 Installment Sale Agreements. There are currently no reimbursement obligations outstanding, although IRWD may incur reimbursement obligations under such Prior Reimbursement Agreements as provided therein.
- Other State Loans. IRWD received two loans from the State of California (the “Other State Loans”) to fund reclaimed water projects. As of June 30, 2007, the Other State Loans were outstanding in a total approximate principal amount of \$744,211 and such Other State Loans mature in 2009 and 2010, respectively. The Other State Loans are payable from taxes, assessments, tolls or other charges levied by IRWD and available to repay such Other State Loans. Such taxes, assessments, tolls or other charges do not constitute Bond Assessments and Charges. The obligations of IRWD to make payments pursuant to the Other State Loans are subordinate to IRWD’s obligation to pay amounts payable pursuant to the 2002 Installment Sale Agreements and other amounts payable on a parity with the 2002 Installment Sale Agreements.
- 1986 Installment Purchase Agreement. As of March 31, 2008, IRWD had an outstanding obligation of \$38.8 million pursuant to an installment purchase agreement (the “1986 Installment Purchase Agreement”) related to certain additional certificates of participation. The final installment payment pursuant to the 1986 Installment Purchase Agreement is to be made in 2016 and average annual installment payments are approximately \$4.2 million. The installment payments pursuant to the 1986 Installment Purchase Agreement are payable from

any legally-available source of funds. The obligation of IRWD to make payments pursuant to the 1986 Installment Purchase Agreement is subordinate to IRWD's obligation to pay amounts payable pursuant to the 2002 Installment Sale Agreements and other amounts payable on a parity with the 2002 Installment Sale Agreements.

- Interest Rate Swap Transactions. As of March 31, 2008, IRWD is obligated under two interest rate swap transactions with a total notional amount of \$140 million and a termination date of March 2009, pursuant to which IRWD is entitled to receive payments at a fixed interest rate in return for IRWD's obligation to make variable rate payments based on a floating interest rate index (the "Fixed Receiver Swaps").

As of March 31, 2008, IRWD is also obligated under five interest rate swap transactions with a total notional amount of \$130 million and termination dates ranging from June 2019 to March 2029, pursuant to which IRWD is entitled to receive variable rate payments based on a floating rate index in return for IRWD's obligation to make payments at a fixed interest rate (the "Fixed Payer Swaps" and, together with the Fixed Receiver Swaps, the "IRWD Swaps").

The IRWD Swaps generally are evenly distributed, as to notional amount on a particular transaction date, between two swap counterparties – Merrill Lynch Capital Services, Inc. and Citibank, N.A. ("Citibank") – except with respect to one Fixed Payer Swap with a notional amount of \$30 million and a termination date of June 17, 2019, which was entered into only with Citibank. For additional information with respect to the payment terms and other information relating to the IRWD Swaps, see Note 3 (Swap Agreements) to IRWD's financial statements in APPENDIX B hereto. Regularly-scheduled and early termination payments with respect to the IRWD Swaps constitute unsecured general obligations of IRWD payable from legally-available funds. The IRWD Swaps are payable from certain Revenues, but are subordinate to IRWD's obligation to pay the 2002 Installment Sale Agreements and other amounts payable on a parity with the 2002 Installment Sale Agreements. Any amounts received by IRWD pursuant to the IRWD Swaps also constitute Revenues and, as such, are not pledged toward repayment of the Series 2008A Bonds.

All of the above-described interest rate swap transactions entail risk to IRWD. For example, the swap counterparties may fail or be unable to perform, interest rates may vary from assumptions, or IRWD may be required to make significant payments in the event of an early termination of a particular interest rate swap. IRWD cannot predict, if any such event will occur with respect to one or more of IRWD's existing or future interest rate swap agreements, or if such event will have a material adverse effect on the financial position of IRWD. However, IRWD does not anticipate that any such event would have a material adverse effect on IRWD's ability to pay debt service with respect to the Series 2008A Bonds.

- Santiago County Water District Consolidation. IRWD and Santiago County Water District (“SCWD”) consolidated effective July 1, 2006. As successor to SCWD, IRWD is obligated to satisfy the following additional obligations: (i) an installment sale agreement with the Municipal Finance Corporation, with an outstanding balance of approximately \$1.6 million (as of March 31, 2008) and final payment due in 2020; (ii) a fiscal services agreement with the State of California Department of Water Resources, with a loan balance of approximately \$1.2 million (as of March 31, 2008) and final payment due in 2025; and (iii) a promissory note payable to Foothill/Eastern Transportation Corridor Agency for \$565,000, with no stated maturity or final payment date.
- Irvine Ranch Water District Joint Powers Agency Refunding Bonds. As of June 30, 2007, the Irvine Ranch Water District Joint Powers Agency had outstanding approximately \$750 million of taxable refunding bonds (the “JPA Bonds”) maturing in 2014, which are secured by a trust estate consisting of investment securities and investment earnings thereon (the “JPA Investments”). The JPA Bonds are not payable from Revenues (or *ad valorem* assessments, as described above). The proceeds from the JPA Bonds are invested in certain long-term investments. By agreement between the Joint Powers Agency and IRWD, the earnings from such long-term investments are transferred to IRWD after application of such earnings first toward payment of principal and interest on the JPA Bonds. However, such amounts received by IRWD are not pledged toward repayment of the Series 2008A Bonds.

Tax Levies, Collections and Delinquencies

The *ad valorem* assessments securing the Series 2008A Bonds are levied for each Fiscal Year on taxable land which is situated in IRWD as of the preceding January 1. A supplemental assessment is levied when property changes hands or new construction is completed.

A ten percent penalty attaches to any delinquent payment for secured roll assessments. In addition, property on the secured roll with respect to which assessments are delinquent becomes tax-defaulted. Such property may thereafter be redeemed by payment of the delinquent assessments and the delinquency penalty, plus a redemption penalty (*i.e.*, interest) to the time of redemption. If assessments are unpaid for a period of five years or more, the property is subject to auction sale by the County Treasurer-Tax Collector.

Delinquency information for each Improvement District is not available. Because the County has implemented the Teeter Plan, IRWD receives secured property assessment on an accrual basis when due, regardless of the delinquency rate. See “Alternative Method of Tax Apportionment – ‘Teeter Plan’” below. Set forth in Table 1 is information on secured tax levies and collections for IRWD as a whole for the Fiscal Years ended June 30, 2003 through June 30, 2007.

TABLE 1
IRVINE RANCH WATER DISTRICT
Secured Tax Levies and Collections

Fiscal Year	Estimated Levy		Actual Collections	
	1% General Fund Apportionment ⁽¹⁾	General ⁽²⁾	1% General Fund Apportionment	General ⁽³⁾
2002-03	\$12,756,500	\$1,281,909	\$12,459,640	\$1,352,950
2003-04	13,541,700	682,045	13,932,804	979,552
2004-05	7,750,200	403,151	7,404,859	448,835
2005-06	7,965,300	3,081,122	8,755,621	5,039,833
2005-07	19,419,300	5,050,938	21,368,075	7,869,904

- ⁽¹⁾ The estimated levy for 1% General Fund apportionment revenue is generated internally and it is based on prior year receipts and developer growth projections.
- ⁽²⁾ The estimated levy for G.O. tax receipts is based on the County's assessed value projection multiplied by the tax rate assessed within each improvement district.
- ⁽³⁾ The General column for collected tax receipts includes unbudgeted utility tax revenue from Improvement District Nos. 190/290 that adds approximately \$400,000 per year.

Source: IRWD.

Alternative Method of Tax Apportionment – “Teeter Plan”

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

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

The *ad valorem* property assessment to be levied to pay the interest on and principal of the Series 2008A Bonds will be subject to the Teeter Plan, beginning in the first year of such levy in the Fiscal Year ending June 30, 2008. IRWD will receive 100% of the *ad valorem* property assessment levied on secured property to pay the Series 2008A Bonds irrespective of actual delinquencies in the collection of the assessment by the County.

The Teeter Plan is to remain in effect for the County unless the Board of Supervisors of the County orders its discontinuance or unless, prior to the commencement of any fiscal year of the County (which commences on July 1 for the County), the Board of Supervisors of the County receives a petition for its discontinuance joined in by a resolution adopted by at least two-thirds of the participating revenue districts in the County. In the event the Board of Supervisors of the County is to order discontinuance of the Teeter Plan for the County subsequent to its implementation, only those secured property assessments actually collected would be allocated

to political subdivisions (including IRWD) for which the County acts as the assessment-levying or assessment-collecting agency. For a discussion of the Improvement Districts supporting the Series 2008A Bonds, see “The Improvement Districts” below.

Investment Policy

As of February 29, 2008, IRWD had investments of approximately \$226.5 million (excluding the JPA Investments described above under “Long-Term Obligations”), of which approximately \$128.3 million, or 57%, was invested in U.S. government securities (standard treasuries and agencies), approximately \$96 million, or 42%, was invested in a State-run investment pool (Local Agency Investment Fund (“LAIF”)), and approximately \$2.2 million, or 1%, was invested in money market funds. As of June 30, 2007, IRWD had investments of approximately \$183.3 million, of which approximately \$164.3 million, or 90%, was invested in U.S. government agency securities, approximately \$14.9 million, or 8%, was invested in LAIF and approximately \$4.1 million, or 2%, was invested in money market funds. The change in the overall value of investment assets from June 30, 2007 to February 29, 2008 is due, primarily, to the deposit of approximately \$100 million of proceeds from the issuance in July 2007 of the Bonds of Irvine Ranch Water District, Consolidated Series 2007, which proceeds will be applied to capital expenditures of IRWD for new developments.

It is the intention of IRWD to continue to invest predominantly in U.S. government securities (standard treasuries and agencies) and LAIF for the foreseeable future, as management believes such investments represent an appropriate balance among safety, liquidity and yield to meet IRWD’s cash needs.

In addition to the monies invested in U.S. government securities and the LAIF, IRWD has invested a portion of its capital facilities replacement fund in real properties. IRWD’s real property investments include a limited partnership interest in a 230-unit apartment complex (the “Wood Canyon Villas Apartments”), ownership of a 450-unit apartment complex (the “Sycamore Canyon Apartments”) and ownership of a commercial office building (the “Irvine Technology Center”).

The Water System

General. Through the issuance of *ad valorem* assessment bonds and other indebtedness, IRWD has constructed, purchased or acquired capacity in, or connections to, various transmission, pumping, storage and distribution facilities to convey the water from these sources into IRWD, including several major facilities built in cooperation with neighboring water districts and cities.

The development of these supplies and the construction and acquisition of facilities are being carried out under a master plan formulated by IRWD in 1972 and updated periodically. Existing and planned development within IRWD will necessitate a combined total water supply of approximately 135,430 acre-feet. IRWD anticipates meeting all of such need from the above-mentioned water importation facilities, groundwater production facilities and recycled water facilities.

The combination of these sources is expected to provide IRWD with a reliable water supply sufficient to permit the ultimate development as presently planned. The reliability is further enhanced by IRWD's storage facilities, which currently provide more than a seven-day supply.

At June 30, 2007, IRWD had approximately 1,457 miles of water main and storage capacity of 30,503 acre-feet.

Water System Rates and Charges. Water system rates and charges (other than connection fees) are generally uniform throughout IRWD. Pumping surcharges apply in higher elevations, and different rates and charges apply in certain areas added to IRWD by consolidation and annexation since 1998. The average monthly service charge for residential water meters is \$7.50. The monthly service charges for commercial and industrial water meters range from \$59.00 to \$2,566.00 based on meter size. Quantity charges are set according to a water conservation oriented ascending block rate structure with rates ranging from \$0.82 to \$7.84 per 100 cubic feet.

Connection Fees. IRWD collects a connection fee for each new connection within each Improvement District to finance IRWD facilities. Connection fees vary by improvement district and range from \$818 to \$6,779 for each residential unit and \$3,048 to \$23,608 for each acre of commercial property. The connection fee is designed to allocate the costs of master plan facilities such as transmission mains, pumping stations, reservoirs and appurtenances necessary to each improvement district.

Water Supply

IRWD was formed in 1961, with the purpose of obtaining a water supply for municipal and irrigation purposes. In the Fiscal Year ended June 30, 2007, of the water supplied by IRWD, approximately 28% was imported water, approximately 44% was ground water and approximately 28% was native and recycled water.

Imported Water. In the Fiscal Year ended June 30, 2007, IRWD used 24,923 acre-feet of imported water from the Colorado River and Northern California, which was purchased from The Metropolitan Water District of Southern California ("MWD"). MWD supplies water through its member agencies, including the member agency in which IRWD is situated, Municipal Water District of Orange County ("MWDOC"). The current cost of treated imported water from MWDOC is \$520 per acre-foot. In addition, IRWD currently pays a fixed charge to MWDOC each month of \$55,955.

MWD faces various challenges in the continued supply of imported water to MWDOC. A description of these challenges as well as a variety of other operating information with respect to MWD is included in certain disclosure documents prepared by MWD. MWD has entered into certain continuing disclosure agreements pursuant to which MWD is contractually obligated for the benefit of owners of certain of their outstanding obligations, to file certain annual reports, notices of certain material events as defined under Rule 15c2-12 of the Securities Exchange Act of 1934 ("Rule 15c2-12") and annual audited financial statements (the "MWD Information") with certain information repositories (a current listing of such repositories is maintained on the Internet at www.sec.gov/info/municipal/nrmsir.htm.) MWD HAS NOT ENTERED INTO ANY

CONTRACTUAL COMMITMENT WITH IRWD, THE TRUSTEE OR THE OWNERS OF THE SERIES 2008A BONDS TO PROVIDE MWD INFORMATION TO IRWD OR THE OWNERS OF THE SERIES 2008A BONDS.

MWD HAS NOT REVIEWED THIS OFFICIAL STATEMENT AND HAS NOT MADE REPRESENTATIONS OR WARRANTIES WITH RESPECT TO THE ACCURACY OR COMPLETENESS OF THE INFORMATION CONTAINED OR INCORPORATED HEREIN, INCLUDING INFORMATION WITH REGARD TO MWD. MWD IS NOT CONTRACTUALLY OBLIGATED, AND HAS NOT UNDERTAKEN, TO UPDATE SUCH INFORMATION FOR THE BENEFIT OF IRWD OR THE OWNERS OF THE SERIES 2008A BONDS UNDER RULE 15c2-12.

Groundwater. IRWD pumps potable groundwater from IRWD's Dyer Road well field located in the City of Santa Ana and nonpotable groundwater from additional wells located in Irvine. The underlying groundwater basin is managed by the Orange County Water District ("OCWD") through the setting of a basin production percentage and the levying of a basin equity assessment on all water pumped in excess of such percentage which encourages each groundwater pumper, including IRWD, to limit its pumping from the groundwater basin to a certain percentage of its water needs within OCWD. OCWD also levies groundwater replenishment assessments on each acre-foot of water pumped from the groundwater basin. A portion of IRWD lies within OCWD. The current basin production percentage applicable to IRWD is 66%, subject to an "equivalent" basin production percentage of 28,000 acre-feet per annum (with a required matching production of 8,000 acre-feet per annum from an aquifer exempt from the basin production percentage, for a total of 36,000 acre-feet per annum) established by contract for IRWD's Dyer Road well field, and the current replenishment assessment is \$237 per acre-foot. The total cost of groundwater pumped by IRWD from the groundwater basin, including pumping costs, is approximately \$304 per acre-foot.

OCWD faces various challenges in managing the groundwater basin. A description of these challenges as well as a variety of other operating information with respect to OCWD is included in certain disclosure documents prepared by OCWD. OCWD has entered into certain continuing disclosure agreements pursuant to which OCWD is contractually obligated for the benefit of owners of certain of their outstanding obligations, to file certain annual reports, notices of certain material events as defined under Rule 15c2-12 and annual audited financial statements (the "OCWD Information") with certain information repositories (a current listing of such repositories is maintained on the Internet at www.sec.gov/info/municipal/nrmsir.htm). OCWD HAS NOT ENTERED INTO ANY CONTRACTUAL COMMITMENT WITH IRWD, THE TRUSTEE OR THE OWNERS OF THE SERIES 2008A BONDS TO PROVIDE OCWD INFORMATION TO IRWD OR THE OWNERS OF THE SERIES 2008A BONDS.

OCWD HAS NOT REVIEWED THIS OFFICIAL STATEMENT AND HAS NOT MADE REPRESENTATIONS OR WARRANTIES WITH RESPECT TO THE ACCURACY OR COMPLETENESS OF THE INFORMATION CONTAINED OR INCORPORATED HEREIN, INCLUDING INFORMATION WITH REGARD TO OCWD. OCWD IS NOT CONTRACTUALLY OBLIGATED, AND HAS NOT UNDERTAKEN, TO UPDATE SUCH INFORMATION FOR THE BENEFIT OF IRWD OR THE OWNERS OF THE SERIES 2008A BONDS UNDER RULE 15c2-12.

Recycled Water. In the Fiscal Year ended June 30, 2007, IRWD produced 15,416 acre-feet of recycled water and supplied an additional 2,954 acre-feet of non-potable water to IRWD customers. IRWD processes and treats wastewater from its customers to produce tertiary-treated recycled water for sale to customers for non-potable consumption. Recycled water is currently sold to 3,854 customers within IRWD. At June 30, 2007, IRWD had approximately 367 miles of reclaimed water mains and reclaimed water storage capacity of 4,868 acre-feet.

The Sewer System

General. IRWD, following voter approval in 1965, is authorized by law to acquire, construct, operate and furnish facilities and services for the collection, treatment, reclamation and disposal of sewage and wastewater and may contract with others for such purposes.

At June 30, 2007, IRWD had approximately 680 miles of sewer mains and treatment plant capacity of approximately 22.5 million gallons a day at the Michelson Water Reclamation Plant and the Los Alisos Water Reclamation Plant. More than 10 billion gallons of sewage were treated by IRWD during the Fiscal Year ended June 30, 2007.

During the Fiscal Year ended June 30, 1986, IRWD negotiated with Orange County Sanitation District (“OCSD”) to form Sanitation District 14 (functionally replaced by “Revenue Area 14” of OCSD, upon the consolidation of the several sanitation districts comprising OCSD’s predecessor, the County Sanitation Districts of Orange County, in 1998), which overlays a substantial portion of IRWD’s territory. Under the agreement, IRWD paid approximately \$34 million for a 6% interest in the OCSD’s sewage processing facilities. This agreement, in addition to IRWD’s own treatment plant capacity and other sewer agreements, currently provides total treatment capacity of 30 million gallons per day. The agreement also provides for the purchase by IRWD of additional capacity in the OCSD sewage processing facilities on as-needed-basis determined from annual flows. A small portion of the sewage from IRWD’s service area that is tributary to the Santa Margarita Water District is treated by the Santa Margarita Water District pursuant to contract. Currently, approximately 75% of IRWD’s sewage is treated by the Michelson Water Reclamation Plant and the Los Alisos Reclamation Plant operated by IRWD, and 25% is treated by OCSD.

OCSD faces various challenges in the continued treatment of sewage. A description of these challenges as well as a variety of other operating information with respect to OCSD is included in certain disclosure documents prepared by OCSD. OCSD has entered into certain continuing disclosure agreements pursuant to which OCSD is contractually obligated for the benefit of owners of certain of their outstanding obligations, to file certain annual reports, notices of certain material events as defined under Rule 15c2-12 and annual audited financial statements (the “OCSD Information”) with certain information repositories (a current listing of such repositories is maintained on the Internet at www.sec.gov/info/municipal/nrmsir.htm). OCSD HAS NOT ENTERED INTO ANY CONTRACTUAL COMMITMENT WITH IRWD, THE TRUSTEE OR THE OWNERS OF THE SERIES 2008A BONDS TO PROVIDE OCSD INFORMATION TO IRWD OR THE OWNERS OF THE SERIES 2008A BONDS.

OCSD HAS NOT REVIEWED THIS OFFICIAL STATEMENT AND HAS NOT MADE REPRESENTATIONS OR WARRANTIES WITH RESPECT TO THE ACCURACY OR COMPLETENESS OF THE INFORMATION CONTAINED OR

INCORPORATED HEREIN, INCLUDING INFORMATION WITH REGARD TO OCSD. OCSD IS NOT CONTRACTUALLY OBLIGATED, AND HAS NOT UNDERTAKEN, TO UPDATE SUCH INFORMATION FOR THE BENEFIT OF IRWD OR THE OWNERS OF THE SERIES 2008A BONDS UNDER RULE 15c2-12.

Sewer System Rates and Charges. The monthly service charges for residential users range from \$10.25 to \$13.65. Commercial and industrial users pay \$13.65 for the first ten CCF (100 cubic feet) and from \$1.56 to \$1.636 per CCF thereafter.

Connection Fees. IRWD collects a connection fee for each new connection to finance IRWD sewer facilities. Connection fees vary by improvement district and range from \$579 to \$4,204 for each residential unit and \$579 to \$45,015 for each acre of commercial or industrial property. The connection fee is designed to allocate the costs of master plan facilities such as transmission mains, pumping stations, treatment facilities and appurtenances necessary to serve each improvement district.

Certain IRWD Financial Information

Table 2 shows IRWD's revenue, expenses and debt service information for the Fiscal Years ended June 30, 2003 through June 30, 2007. For additional information regarding IRWD's long-term debt and the application of the revenues described below toward the debt service payments described below, see "Long-Term Obligations" above.

TABLE 2
IRVINE RANCH WATER DISTRICT
Revenues, Expenses and Debt Service
(in Thousands)

	As of June 30,				
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Operating and Non-Operating Revenues⁽¹⁾					
Water Sales and Service Charges	\$27,185	\$ 31,700	\$33,105	\$ 39,256	\$ 45,138
Sewer Sales and Service Charges	18,521	23,346	24,622	29,248	37,649
<i>Ad Valorem</i> Property Taxes ⁽²⁾	1,414	830	390	5,060	8,411
1% Property Taxes	12,833	14,474	7,335	10,177	22,256
Connection Fees	6,677	5,546	6,188	17,903	22,122
Net Real Estate Income	4,668	4,541	4,945	4,625	4,921
Investment Income ⁽³⁾	5,973	5,158	7,695	9,115	10,768
Net Earnings of JPA ⁽⁴⁾	2,360	3,269	3,277	3,367	3,388
Other	<u>6,120</u>	<u>13,065</u>	<u>9,753</u>	<u>8,494</u>	<u>10,457</u>
Total Operating and Non-Operating Revenues⁽⁵⁾	\$85,751	\$101,929	\$97,310	\$127,245	\$165,110
Operating Expenses					
Water Services	\$24,820	\$26,139	\$25,198	\$29,813	\$33,281
Sewer Services	15,558	19,052	19,055	18,480	23,439
Administrative and General	12,141	12,301	12,879	14,181	16,595
Customer Accounts	2,207	2,307	2,410	2,620	2,829
Other	<u>373</u>	<u>1,881</u>	<u>430</u>	<u>666</u>	<u>884</u>
Total Operating Expenses⁽⁶⁾	<u>55,099</u>	<u>61,680</u>	<u>59,972</u>	<u>65,760</u>	<u>77,028</u>
Revenues Net of Operating Expenses	<u>\$30,652</u>	<u>\$40,249</u>	<u>\$37,338</u>	<u>\$61,485</u>	<u>\$ 88,082</u>
Payments Relating to Long-Term Obligations⁽⁷⁾					
<i>Ad Valorem</i> Assessment Bonds	\$23,377	\$23,524	\$25,823	\$28,935	\$30,436
2002 Certificates of Participation	470	599	1,094	1,873	2,319
1997 State Loan	227	226	226	227	226
Other State Loans	292	292	292	292	292
1986 Certificates of Participation	<u>2,641</u>	<u>2,573</u>	<u>3,128</u>	<u>3,758</u>	<u>4,099</u>
Total Payments Relating to Long-Term Obligations	<u>\$27,007</u>	<u>\$27,214</u>	<u>\$30,563</u>	<u>\$35,085</u>	<u>\$37,372</u>
Revenues Net of Operating Expenses and Payments Relating to Long-Term Obligations	<u>\$3,645</u>	<u>\$13,035</u>	<u>\$6,775</u>	<u>\$26,400</u>	<u>\$50,710</u>

⁽¹⁾ Includes revenues pledged to pay obligations other than the Series 2008A Bonds. See "Long-Term Obligations" above.

⁽²⁾ Represents collections in all improvement districts, including but not limited to the Improvement Districts. Available only in part to repay *ad valorem* assessment bonds issued by the Improvement Districts. *Ad valorem* tax rates vary from year to year based on a number of factors. See "Improvement District Nos. 105 and 250 – Assessment Rates" for a discussion of certain factors affecting such rates.

⁽³⁾ Includes net earnings on the IRWD Swaps. See "Long-Term Obligations – Interest Rate Swap Transactions" above.

⁽⁴⁾ See "Long-Term Obligations – Irvine Ranch Water District Joint Powers Agency Refunding Bonds" above.

⁽⁵⁾ Excluding non-cash capital contributions and changes in fair value of investments.

⁽⁶⁾ Excluding depreciation.

⁽⁷⁾ Debt service payments not listed in order of payment priority or by payment source. See "Long-Term Obligations" above.

Source: IRWD.

CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES

Article XIII A

General. On June 6, 1978, California voters approved Proposition 13, which added Article XIII A to the California Constitution ("Article XIII A"). Article XIII A limits the amount of any *ad valorem* tax on real property to one percent of the full cash value thereof, except that additional *ad valorem* taxes may be levied to pay debt service on indebtedness approved by the

voters prior to July 1, 1978 and (as a result of an amendment to Article XIII A approved by California voters on June 3, 1986) on bonded indebtedness for the acquisition or improvement of real property that has been approved on or after July 1, 1978 by two-thirds of the voters voting on such indebtedness. Article XIII A defines "full cash value" to mean "the county assessor's valuation of real property as shown on the 1975/76 tax bill under 'full cash value' or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment." The full cash value may be increased at a rate not to exceed two percent per year to account for inflation.

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

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

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

Article XIII B

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

To date, IRWD has determined annually that its budget is funded entirely from revenues that are excluded from and do not constitute "appropriations subject to limitation" under Article

XIIB, and therefore, the appropriation of such revenues is not limited under Article XIIB. IRWD believes that its annual operating and capital budgets are in compliance with Article XIIB.

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

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

Based upon the California Second District Court of Appeal decision in *Howard Jarvis Taxpayers Association v. City of Los Angeles*, 85 Cal. App. 4th 79 (2000), which was denied review by the California Supreme Court, it was generally believed that Article XIID did not apply to charges for metered water, which had been held to be commodity charges related to consumption of the service, not property ownership.

In July 2006, however, the California Supreme Court held, in *Bighorn-Desert View Water Agency v. Virjil*, 39 Cal. 4th 205 (2006), that the initiative power described in Article XIIC applies to any local taxes, assessments, fees and charges as defined in Articles XIIC and XIID. Article XIID defines “fee” or “charge” to mean a levy (other than *ad valorem* or special taxes or assessments) imposed by a local government “upon a parcel or upon

a person as an incident of property ownership, ” including a user fee for a “property related service.” The Court also found that charges for water delivery are charges for a property-related service and, therefore, constitute “fees” or “charges” within the meaning of both Article XIID and section 3 of Article XIIC. Prior to the decision in *Bighorn*, in reliance on the decision in *Howard Jarvis* and the California Supreme Court’s decision to deny review in that case, IRWD believed that it was not legally required to comply with the notice and public hearing requirements of Article XIID with respect to its rates and charges. In light of the decision in *Bighorn*, IRWD determined that it would conduct notice and hearing proceedings to comply with requirements of Article XIID with respect to proposed increases of rates and charges and commenced doing so for the proposed increases for the Fiscal Year ending June 30, 2008, which were adopted in June 2007.

Article XIIC. Article XIIC 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 XIIC does not define the terms “local tax,” “assessment,” “fee” or “charge.” In light of *Bighorn* and as discussed above under “Article XIID,” the terms “fee” and “charge” as used in Article XIIC include, at a minimum, all of the fees and charges within the “property related” qualification set forth in Article XIID. Moreover, the provisions of Article XIIC are not expressly limited to local taxes, assessments, fees and charges imposed after November 6, 1996. Therefore, in the absence of other limitations, provisions of Article XIIC could be applicable to the water and sewer rates charged by IRWD. IRWD and its general counsel do not believe that Article XIIC grants to the voters within IRWD the power to repeal or reduce rates and charges in a manner which would be inconsistent with the contractual obligations of IRWD. However, there can be no assurance of the availability of particular remedies adequate to protect the beneficial owners of the Series 2008A Bonds. Remedies available to beneficial owners of the Series 2008A Bonds in the event of a default by IRWD are dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time-consuming to obtain.

In addition to the specific limitations on remedies contained in the applicable documents themselves, the rights and obligations with respect to the Series 2008A 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, and to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State of California. The various opinions of counsel to be delivered with respect to such documents, including the opinion of Co-Bond Counsel (the form of which is attached as APPENDIX E), will be similarly qualified.

Proposition 1A

Proposition 1A (“Proposition 1A”), proposed by the California Legislature in connection with the 2004-05 State Budget Act and approved by the voters in November 2004, restricts State authority to reduce major local tax revenues such as the tax shifts permitted to take place in Fiscal Years 2004-05 and 2005-06. Proposition 1A provides that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate or change the allocation of local sales tax revenues, subject to certain exceptions. Proposition 1A generally prohibits the State from shifting to schools or community colleges any share of property tax

revenues allocated to local governments for any fiscal year, as set forth under the laws in effect as of November 3, 2004. Any change in the allocation of property tax revenues among local governments within a county must be approved by two-thirds of both houses of the Legislature.

Proposition 1A provides, however, that beginning in Fiscal Year 2008-09, the State may shift to schools and community colleges up to 8% of local government property tax revenues, which amount must be repaid, with interest, within three years, if the Governor proclaims that the shift is needed due to a severe State financial hardship, the shift is approved by two thirds of both houses and certain other conditions are met. The State may also approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county.

Proposition 1A also provides that if the State reduces the vehicle license fee rate currently in effect (0.65% of vehicle value), the State must provide local governments with equal replacement revenues. Further, Proposition 1A requires the State, beginning July 1, 2005, to suspend State mandates affecting cities, counties and special districts, excepting mandates relating to employee rights, schools or community colleges, in any year that the State does not fully reimburse local governments for their costs to comply with such mandates.

Future Initiatives

Article XIII A, Article XIII B, Proposition 218 and Proposition 1A were each adopted as measures that qualified for the ballot pursuant to California's initiative process. From time to time other initiative measures may be adopted, further affecting ability of IRWD to collect or expend moneys with respect to the Bond Assessments and Charges.

THE IMPROVEMENT DISTRICTS

Improvement Districts No. 105 and No. 250

General. Improvement District No. 105 (water) and Improvement District No. 250 (sewer) are generally coterminous and cover approximately 26,000 acres, including a majority of the area north of the I-5 freeway stretching to near the Riverside County line. Currently, the far western area of Improvement District Nos. 105 and 250 consists of residential development. In addition, large portions of Improvement District Nos. 105 and 250, near the Lomas de Santiago ridgeline, are reserved as permanent open space. IRWD expects development in Improvement District Nos. 105 and 250 to continue until approximately 2025. IRWD expects such future development to be predominantly low density residential with supporting commercial development.

Set forth below is information with respect to Improvement District Nos. 105 and 250. Certain information with respect to these Improvement Districts has been consolidated, where appropriate in light of their generally coterminous boundaries.

The *ad valorem* assessments levied by IRWD in Improvement District Nos. 105 and 250 to pay such Improvement Districts' respective Included Amounts of debt service on the Series 2008A Bonds will be levied on land only.

Table 3 represents the five-year history of assessed valuations of land in Improvement District No. 105 for Fiscal Years ended June 30, 2004 through June 30, 2008:

TABLE 3
IRVINE RANCH WATER DISTRICT
Improvement District No. 105
Assessed Valuations (Land Only)

	<u>Local Secured</u>	<u>Utility</u>	<u>Unsecured⁽¹⁾</u>	<u>Total</u>
2003-04	\$3,134,604,458	\$20,714	\$3,620,182	\$3,138,245,354
2004-05	3,548,869,042	19,714	5,511,941	3,554,400,697
2005-06	4,222,017,430	20,102	5,702,118	4,227,739,650
2006-07	5,194,074,777	18,828	5,884,086	5,199,977,691
2007-08	5,984,544,964	0 ⁽²⁾	6,501,475	5,991,046,439

⁽¹⁾ Assessed value of unsecured land only.

⁽²⁾ With the enactment of AB 2670, the assessed value of certain railroad property is no longer allocated to individual tax rate areas, but is now allocated to the entire county where such property is located.

Sources: California Municipal Statistics, Inc. and County Auditor-Controller.

Table 4 represents the five-year history of assessed valuations of land in Improvement District No. 250 for Fiscal Years ended June 30, 2004 through June 30, 2008:

TABLE 4
IRVINE RANCH WATER DISTRICT
Improvement District No. 250
Assessed Valuations (Land Only)

	<u>Local Secured</u>	<u>Utility</u>	<u>Unsecured⁽¹⁾</u>	<u>Total</u>
2003-04	\$3,129,455,743	\$16,348	\$3,620,182	\$3,133,092,273
2004-05	3,543,624,240	15,559	5,511,941	3,549,151,740
2005-06	4,216,667,770	15,865	5,702,118	4,222,385,753
2006-07	4,874,617,183	14,860	5,858,862	4,880,490,905
2007-08	5,642,845,768	0 ⁽²⁾	6,324,262	5,649,170,030

⁽¹⁾ Assessed value of unsecured land only.

⁽²⁾ With the enactment of AB 2670, the assessed value of certain railroad property is no longer allocated to individual tax rate areas, but is now allocated to the entire county where such property is located.

Sources: California Municipal Statistics, Inc. and County Auditor-Controller.

Table 5 sets forth information with respect to land-only local secured assessed valuation in Improvement District No. 105 (excluding utility and unsecured property) by land use for the Fiscal Year ending June 30, 2008:

TABLE 5
IRVINE RANCH WATER DISTRICT
Improvement District No. 105
Assessed Valuation and Parcels by Land Use

	2007-08 <u>Assessed Valuation⁽¹⁾</u>	<u>% of Total</u>	<u>No. of Parcels</u>	<u>% of Total</u>
Non-Residential:				
Commercial	\$252,450,237	4.22%	181	0.83%
Industrial	<u>40,256,125</u>	<u>0.67</u>	<u>12</u>	<u>0.06</u>
Subtotal Non-Residential	\$292,706,362	5.19%	193	0.96%
Residential:				
Single Family Residence	\$3,562,176,440	59.52%	12,569	57.91%
Condominium/Townhouse	1,961,470,896	32.78	7,999	36.86
2+ Residential Units/Apartments	95,019,826	1.59	72	0.33
Vacant Residential	<u>73,171,440</u>	<u>1.22</u>	<u>870</u>	<u>4.01</u>
Subtotal Residential	\$5,691,838,602	95.11%	21,510	99.11%
Total	\$5,984,544,964	100.00%	21,703	100.00%

⁽¹⁾ Local Secured Assessed Valuation (land only); excluding tax-exempt property.
Source: California Municipal Statistics, Inc.

Table 6 sets forth information with respect to land-only local secured assessed valuation in Improvement District No. 250 (excluding utility and unsecured property) by land use for the Fiscal Year ending June 30, 2008:

TABLE 6
IRVINE RANCH WATER DISTRICT
Improvement District No. 250
Assessed Valuation and Parcels by Land Use

	2007-08 <u>Assessed Valuation⁽¹⁾</u>	<u>% of Total</u>	<u>No. of Parcels</u>	<u>% of Total</u>
Non-Residential:				
Commercial	\$252,450,237	4.47%	181	0.90%
Industrial	<u>40,256,125</u>	<u>0.71</u>	<u>12</u>	<u>0.06</u>
Subtotal Non-Residential	\$292,706,362	5.19%	193	0.96%
Residential:				
Single Family Residence	\$3,322,186,646	58.87%	11,532	57.38%
Condominium/Townhouse	1,860,832,681	32.98	7,458	37.11
2+ Residential Units/Apartments	95,019,826	1.68	72	0.36
Vacant Residential	<u>72,100,253</u>	<u>1.28</u>	<u>844</u>	<u>4.20</u>
Subtotal Residential	\$5,350,139,406	94.81%	19,906	99.04%
Total	\$5,642,845,768	100.00%	20,099	100.00%

⁽¹⁾ Local Secured Assessed Valuation (land only); excluding tax-exempt property.
Source: California Municipal Statistics, Inc.

Assessment Rates. IRWD has covenanted under the Indenture that to the extent necessary to pay debt service on the Series 2008A Bonds it will impose and collect Bond Assessments and Charges. See “SECURITY FOR THE SERIES 2008A BONDS — General — Covenant to Collect Bond Assessments and Charges” in the forepart of this Official Statement. Although *ad valorem* assessment bonds are generally payable from *ad valorem* assessments on land within the related improvement districts (including such Bond Assessments and Charges, with respect to the Series 2008A Bonds), IRWD may elect, and from time to time has elected, to apply other available sources to the payment of such debt service. As a result of IRWD’s discretionary election to use other sources of payment for debt service on *ad valorem* assessment bonds, the annual tax rates set by IRWD vary from year to year and generally do not result in revenues that correspond with debt service requirements on the *ad valorem* assessment bonds. There is no assurance that such alternate sources for debt service payments will be available or continue to be available in succeeding years, or that if they are available, IRWD will elect to use them for debt service payments. The annual tax rates set by IRWD may vary from year to year for other reasons as well. For example, IRWD significantly increased *ad valorem* assessment rates for Improvement District No. 250 for the Fiscal Year ended June 30, 2006 as a result of a change in State law reducing the portion of the County’s 1% *ad valorem* property tax allocable to IRWD.

Table 7 summarizes the total *ad valorem* tax rates levied by all taxing entities in a typical tax rate area within Improvement District Nos. 105 and 250 during the Fiscal Year ending June 30, 2008.

TABLE 7
IRVINE RANCH WATER DISTRICT
Improvement District Nos. 105 and 250
Typical Total Tax Rates (TRA 26-216)⁽¹⁾

General	1.00000
Metropolitan Water District	<u>.00450</u>
Total All Property Tax Rate	1.00450
Irvine Ranch Water District I.D. No. 105	.00780
Irvine Ranch Water District I.D. No. 250	<u>.03200</u>
Total Land-Only Tax Rate	.03980

⁽¹⁾ 2007-08 land-only assessed valuation of TRA 26-216 is \$1,616,930,160, constituting 26.99% of Improvement District No. 150’s assessed valuation and 28.62% of Improvement District No. 250’s assessed valuation.

Source: California Municipal Statistics, Inc.

Principal Taxpayers. Table 8 lists the major taxpayers in Improvement District No. 105 based on land-only local secured assessed valuations for the Fiscal Year ending June 30, 2008:

TABLE 8
IRVINE RANCH WATER DISTRICT
Improvement District No. 105
Largest Local Secured Taxpayers

<u>Property Owner</u>	<u>Primary Land Use</u>	<u>2007-08 Assessed Valuation</u>	<u>% of Total (1)</u>
1. The Irvine Company	Residential and Commercial	\$247,165,733	4.13%
2. Irvine Apartment Communities	Apartments	62,780,796	1.05
3. Bacchus Commercial LLC	Commercial	39,854,000	0.67
4. California Pacific Homes	Residential Development	22,392,010	0.37
5. Standard Pacific Corp.	Residential Development	20,140,362	0.34
6. KB Home Coastal Inc.	Residential Development	17,468,326	0.29
7. Sanyo Foods Corp. of America	Industrial	16,795,606	0.28
8. Roxanne Ray-Bordelon	Commercial	16,669,024	0.28
9. Lennar Homes of California	Residential Development	15,753,706	0.26
10. Taylor Woodrow Homes Inc.	Residential Development	<u>15,084,992</u>	<u>0.25</u>
		\$474,104,555	7.92%

⁽¹⁾ 2007-08 Local Secured Assessed Valuation (land only): \$5,984,544,964

Source: California Municipal Statistics, Inc.

Table 9 lists the major taxpayers in Improvement District No. 250 based on land-only local secured assessed valuations for the Fiscal Year ending June 30, 2008:

TABLE 9
IRVINE RANCH WATER DISTRICT
Improvement District No. 250
Largest Local Secured Taxpayers

<u>Property Owner</u>	<u>Primary Land Use</u>	<u>2007-08 Assessed Valuation</u>	<u>% of Total⁽¹⁾</u>
1. The Irvine Company	Residential and Commercial	\$240,797,835	4.27%
2. Irvine Apartment Communities	Apartments	62,780,796	1.11
3. Bacchus Commercial LLC	Commercial	39,854,000	0.71
4. California Pacific Homes	Residential Development	22,392,010	0.40
5. Standard Pacific Corp.	Residential Development	20,140,362	0.36
6. KB Home Coastal Inc.	Residential Development	17,468,326	0.31
7. Sanyo Foods Corp. of America	Industrial	16,795,606	0.30
8. Roxanne Ray-Bordelon	Commercial	16,669,024	0.30
9. Lennar Homes of California	Residential Development	15,753,706	0.28
10. Taylor Woodrow Homes Inc.	Residential Development	<u>15,084,992</u>	<u>0.27</u>
		\$467,736,657	8.29%

⁽¹⁾ 2007-08 Local Secured Assessed Valuation (land only): \$5,642,845,768

Source: California Municipal Statistics, Inc.

Table 10 sets forth the long-term debt structure in Improvement District No. 105 as of January 31, 2008 (but also including such Improvement District's Included Amount of the Series 2008A Bonds):

TABLE 10
IRVINE RANCH WATER DISTRICT
Improvement District No. 105
Debt Structure

<u>Bonds Authorized</u>	<u>Bonds Issued</u>	<u>Bonds Outstanding</u>	<u>Authorized But Unissued</u>
\$188,734,000	\$134,377,000	\$82,368,000	\$54,357,000

Source: IRWD.

Table 11 identifies the changes in long-term debt for Improvement District No. 105 for the seven months ended January 31, 2008:

TABLE 11
IRVINE RANCH WATER DISTRICT
Improvement District No. 105
Schedule of Long Term Debt, as of January 31, 2008

<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance January 31, 2008</u>
\$37,058,770	\$46,700,000	\$1,390,364	\$82,368,406

Source: IRWD.

Table 12 sets forth the long-term debt structure in Improvement District No. 250 as of January 31, 2008 (but also including such Improvement District's Included Amount of the Series 2008A Bonds):

TABLE 12
IRVINE RANCH WATER DISTRICT
Improvement District No. 250
Debt Structure

<u>Bonds Authorized</u>	<u>Bonds Issued</u>	<u>Bonds Outstanding</u>	<u>Authorized But Unissued</u>
\$286,727,000	\$142,168,000	\$96,312,000	\$144,559,000

Source: IRWD.

Table 13 identifies the changes in long-term debt for Improvement District No. 250 for the seven months ended January 31, 2008:

TABLE 13
IRVINE RANCH WATER DISTRICT
Improvement District No. 250
Schedule of Long Term Debt, as of January 31, 2008

<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>January 31, 2008</u>
\$57,946,529	\$42,000,000	\$3,634,362	\$96,312,167

Source: IRWD.

Statement of Direct and Overlapping Debt. Set forth in Tables 14 and 15 are direct and overlapping debt reports (the “Debt Reports”) for Improvement District Nos. 105 and 250, respectively, prepared by California Municipal Statistics, Inc. and effective March 1, 2008. The Debt Reports are included for general information purposes only. IRWD has not reviewed the Debt Reports for completeness or accuracy and makes no representation in connection therewith.

The Debt Reports generally include long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of Improvement District Nos. 105 and 250 in whole or in part. Such long-term obligations generally are not payable from revenues of IRWD or Improvement District Nos. 105 and 250 (except as indicated) nor are they necessarily obligations secured by land within Improvement District Nos. 105 and 250. In many cases long-term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency.

The first column in each table names each public agency that has outstanding debt as of the date of the report and whose territory overlaps Improvement District Nos. 105 and 250 in whole or in part. Column 2 in each table shows the percentage of each overlapping agency’s assessed value located within the boundaries of Improvement District Nos. 105 and 250. This percentage, multiplied by the total outstanding debt of each overlapping agency (which is not shown in the table) produces the amount shown in column 3 in each table, which is the apportionment of each overlapping agency’s outstanding debt to taxable property in Improvement District Nos. 105 and 250.

TABLE 14
IRVINE RANCH WATER DISTRICT
Improvement District No. 105
Direct and Overlapping Debt Statement

2007-08 Land Only Assessed Valuation: \$5,991,046,439

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable (1)</u>	<u>Debt 3/1/08</u>
Orange County Teeter Plan Obligations	3.081%	\$ 3,811,967
Metropolitan Water District	0.639	2,090,904
Rancho Santiago Community College District	1.275	4,102,687
Saddleback Valley Unified School District	0.010	14,248
Tustin Unified School District School Facilities Improvement District No. 2002-1	4.053	963,045
Irvine Ranch Water District, I.D. No. 105	100.	82,368,000 (2)
Irvine Ranch Water District, I.D. No. 250	99.989	96,301,406 (2)
Community Facilities Districts	30.819-100.	341,069,125
City 1915 Act Bonds (Estimated)	Various	<u>370,229,935</u>
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$900,951,317
 <u>OVERLAPPING GENERAL FUND DEBT:</u>		
Orange County General Fund Obligations	3.081%	\$16,914,567
Orange County Pension Obligations	3.081	2,240,807
Orange County Board of Education Certificates of Participation	3.081	607,573
South Orange County Community College District Certificates of Participation	6.744	2,403,224
Tustin Unified School District Certificates of Participation	39.604	2,558,418
Orange Unified School District Certificates of Participation	2.648	1,363,190
City of Irvine General Fund Obligations	16.939	4,094,156
City of Orange General Fund Obligations	4.622	282,866
Municipal Water District of Orange County Water Facilities Corporation	3.663	706,776
Orange County Sanitation District Certificates of Participation	4.394	4,580,306
Irvine Ranch Water District Certificates of Participation	17.878	6,936,664
Orange County Fire Authority General Fund Obligations	5.660	<u>586,659</u>
TOTAL GROSS OVERLAPPING GENERAL FUND DEBT		\$43,275,206
Less: MWDOC Water Facilities Corporation (100% self-supporting)		<u>706,776</u>
TOTAL NET OVERLAPPING GENERAL FUND DEBT		\$42,568,430
 GROSS COMBINED TOTAL DEBT		\$944,226,523 (3)
NET COMBINED TOTAL DEBT		\$943,519,747

(1) Based on all property assessed valuation of \$11,327,631,535.

(2) Excludes issues to be sold.

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

Ratios to 2007-08 Land Only Assessed Valuation:

Direct Debt (\$82,368,000)..... 1.37%
Total Direct and Overlapping Tax and Assessment Debt 15.04%

Ratios to Adjusted All Property Assessed Valuation:

Gross Combined Total Debt 8.34%
Net Combined Total Debt..... 8.33%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/07: \$0

Source: California Municipal Statistics, Inc.

TABLE 15
IRVINE RANCH WATER DISTRICT
Improvement District No. 250
Direct and Overlapping Debt Statement

2007-08 Land Only Assessed Valuation: \$5,649,170,030

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable (1)</u>	<u>Debt 3/1/08</u>
Orange County Teeter Plan Obligations	2.911%	\$ 3,601,635
Metropolitan Water District	0.604	1,976,379
Rancho Santiago Community College District	0.040	128,712
Saddleback Valley Unified School District	0.010	14,248
Tustin Unified School District School Facilities Improvement District No. 2002-1	4.052	962,808
Irvine Ranch Water District, I.D. No. 105	94.293	77,667,258 (2)
Irvine Ranch Water District, I.D. No. 250	100.	96,312,000 (2)
Community Facilities Districts	30.820-100.	338,334,949
City 1915 Act Bonds (Estimated)	Various	<u>365,875,124</u>
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$884,873,113
 <u>OVERLAPPING GENERAL FUND DEBT:</u>		
Orange County General Fund Obligations	2.911%	\$15,981,274
Orange County Pension Obligations	2.911	2,117,166
Orange County Board of Education Certificates of Participation	2.911	574,049
South Orange County Community College District Certificates of Participation	6.740	2,401,799
Tustin Unified School District Certificates of Participation	39.604	2,558,418
Orange Unified School District Certificates of Participation	0.083	42,728
City of Irvine General Fund Obligations	16.923	4,090,289
City of Orange Certificates of Participation	0.053	3,244
Municipal Water District of Orange County Water Facilities Corporation	3.464	668,379
Orange County Sanitation District Certificates of Participation	4.157	4,333,257
Irvine Ranch Water District Certificates of Participation	16.859	6,541,292
Orange County Fire Authority General Fund Obligations	5.653	<u>585,933</u>
TOTAL GROSS OVERLAPPING GENERAL FUND DEBT		\$39,897,828
Less: MWDOC Water Facilities Corporation (100% self-supporting)		<u>668,379</u>
TOTAL NET OVERLAPPING GENERAL FUND DEBT		\$39,229,449
 GROSS COMBINED TOTAL DEBT		\$924,770,941 (3)
NET COMBINED TOTAL DEBT		\$924,102,562

(1) Based on all property assessed valuation of \$10,705,524,275.

(2) Excludes issues to be sold.

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

Ratios to 2007-08 Land Only Assessed Valuation:

Direct Debt (\$96,080,350)..... 1.70%
Total Direct and Overlapping Tax and Assessment Debt 15.66%

Ratios to Adjusted All Property Assessed Valuation:

Gross Combined Total Debt 8.64%
Net Combined Total Debt..... 8.63%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/07: \$0

Source: California Municipal Statistics, Inc.

Improvement District Nos. 113 and 213

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

Set forth below is information with respect to Improvement District Nos. 113 and 213. Certain information with respect to these Improvement Districts has been consolidated, where appropriate in light of their coterminous boundaries.

The *ad valorem* assessments levied by IRWD in Improvement District Nos. 113 and 213 to pay such Improvement Districts' respective Included Amounts of debt service on the Series 2008A Bonds will be levied on land only.

Table 16 represents the three-year history of assessed valuations of land in Improvement District Nos. 113 and 213 for Fiscal Years ended June 30, 2006 through June 30, 2008. Prior to the Fiscal Year ended June 30, 2006, the property within Improvement District Nos. 113 and 213 was owned by the United States government and was not subject to property taxes.

TABLE 16
IRVINE RANCH WATER DISTRICT
Improvement District Nos. 113 and 213
Assessed Valuations (Land Only)

<u>Fiscal Year</u>	<u>Local Secured</u>	<u>Utility</u>	<u>Unsecured⁽¹⁾</u>	<u>Total</u>
2005-06	\$276,019,505	\$0	\$ 0	\$276,019,505
2006-07	583,904,580	0	334,255	584,238,935
2007-08	691,298,772	0	378,070	691,676,842

⁽¹⁾ Assessed value of unsecured land only.

Sources: *California Municipal Statistics, Inc. and County Auditor-Controller.*

Table 17 sets forth information with respect to land-only local secured assessed valuation in Improvement District Nos. 113 and 213 (excluding utility and unsecured property) by land use for the Fiscal Year ending June 30, 2008:

TABLE 17
IRVINE RANCH WATER DISTRICT
Improvement District Nos. 113 and 213
Assessed Valuation and Parcels by Land Use

	2007-08 <u>Assessed Valuation</u> ⁽¹⁾	% of <u>Total</u>	No. of <u>Parcels</u>	% of <u>Total</u>
Residential:				
Single Family Residence	\$349,256,528	50.52%	812	40.66%
Condominium/Townhouse	197,124,865	28.52	737	36.91
Vacant Residential	40,843,517	5.91	430	21.53
Commercial/Shopping Center	<u>104,073,862</u>	<u>15.05</u>	<u>18</u>	<u>0.90</u>
Total	\$691,298,772	100.00%	1,997	100.00%

⁽¹⁾ Local Secured Assessed Valuation (land only); excluding tax-exempt property.
Source: California Municipal Statistics, Inc.

Assessment Rates. IRWD has covenanted under the Indenture that to the extent necessary to pay debt service on the Series 2008A Bonds it will impose and collect Bond Assessments and Charges. See “SECURITY FOR THE SERIES 2008A BONDS – General – Covenant to Collect Bond Assessments and Charges” in the forepart of this Official Statement. Although *ad valorem* assessment bonds are generally payable from *ad valorem* assessments on land within the related improvement districts (including such Bond Assessments and Charges, with respect to the Series 2008A Bonds), IRWD may elect, and from time to time has elected, to apply other available sources to the payment of such debt service. For various reasons, including IRWD making such a discretionary election to use other sources of payment for debt service on *ad valorem* assessment bonds, the annual tax rates set by IRWD vary from year to year and generally do not result in collection of revenues that correspond with debt service requirements on the *ad valorem* assessment bonds. There is no assurance that alternate sources for debt service payments will be available or continue to be available in succeeding years, or that if they are available, IRWD will elect to use them for debt service payments.

Table 18 summarizes the total *ad valorem* tax rates levied by all taxing entities in a typical tax rate area within Improvement District Nos. 113 and 213 during the Fiscal Year ending June 30, 2008.

TABLE 18
IRVINE RANCH WATER DISTRICT
Improvement District Nos. 113 and 213
Typical Total Tax Rates (TRA 13-159)⁽¹⁾

2007-08 Typical Total Tax Rate

General	1.00000
Metropolitan Water District	<u>.00450</u>
Total All Property Tax Rate	1.00450
Irvine Ranch Water District I.D. No. 113	.01920
Irvine Ranch Water District I.D. No. 213	<u>.14093</u>
Total Land Only Tax Rate	.16013

⁽¹⁾ 2007-08 land-only assessed valuation of TRA 13-159 is \$118,571,661, constituting 17.14% of assessed valuation of Improvement District Nos. 113 and 213.

Source: California Municipal Statistics, Inc.

Table 19 lists the major taxpayers in Improvement District Nos. 113 and 213 based on land-only local secured assessed valuations for the Fiscal Year ending June 30, 2008:

TABLE 19
IRVINE RANCH WATER DISTRICT
Improvement District Nos. 113 and 213
Largest Local Secured Taxpayers

<u>Property Owner</u>	<u>Primary Land Use</u>	<u>2007-08 Assessed Valuation</u>	<u>% of Total (1)</u>
1. William Lyon Homes Inc.	Residential Development	\$129,234,558	18.69%
2. Vestar/Kimco Tustin LP	Commercial	90,813,428	13.14
3. MW Housing Partners III	Residential Development	85,258,488	12.33
4. Ora Astoria LLC	Residential Development	38,244,830	5.53
5. Lennar Homes of California	Residential Development	22,482,344	3.25
6. Tustin Villas Partners LLC	Residential Development	17,765,340	2.57
7. Costco Wholesale Corporation	Commercial	13,251,383	1.92
8. KB Home Coastal Inc.	Residential Development	13,024,455	1.88
9. Breck Miller	Residential Development	2,357,848	0.34
10. Marble Mountain Partners LLC	Residential Development	<u>1,616,269</u>	<u>0.23</u>
		\$414,048,943	59.89%

⁽¹⁾ 2007-08 Local Secured Assessed Valuation (land only): \$691,298,772.

Source: California Municipal Statistics, Inc.

Table 20 sets forth the long-term debt structure in Improvement District No. 113 as of January 31, 2008 (but also including such Improvement District's Included Amount of the Series 2008A Bonds):

TABLE 20
IRVINE RANCH WATER DISTRICT
Improvement District No. 113
Debt Structure

<u>Bonds Authorized</u>	<u>Bonds Issued</u>	<u>Bonds Outstanding</u>	<u>Authorized But Unissued</u>
\$25,770,000	\$6,500,000	\$6,500,000	\$19,270,000

Source: IRWD.

Table 21 identifies the changes in long-term debt for Improvement District No. 113 for the seven months ended January 31, 2008:

TABLE 21
IRVINE RANCH WATER DISTRICT
Improvement District No. 113
Schedule of Long Term Debt, as of January 31, 2008

<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance January 31, 2008</u>
\$1,500,000	\$5,000,000	\$0	\$6,500,000

Source: IRWD.

Table 22 sets forth the long-term debt structure in Improvement District No. 213 as of January 31, 2008 (but also including such Improvement District's Included Amount of the Series 2008A Bonds):

TABLE 22
IRVINE RANCH WATER DISTRICT
Improvement District No. 213
Debt Structure

<u>Bonds Authorized</u>	<u>Bonds Issued</u>	<u>Bonds Outstanding</u>	<u>Authorized But Unissued</u>
\$87,648,000	\$17,400,000	\$17,400,000	\$70,248,000

Source: IRWD.

Table 23 identifies the changes in long-term debt for Improvement District No. 213 for the seven months ended January 31, 2008:

TABLE 23
IRVINE RANCH WATER DISTRICT
Improvement District No. 213
Schedule of Long Term Debt, as of January 31, 2008

<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>January 31, 2008</u>
\$11,100,000	\$6,300,000	\$0	\$17,400,000

Source: IRWD.

Statement of Direct and Overlapping Debt. Set forth in Table 24 is a direct and overlapping debt report (the “Debt Report–I.D. 113/213”) for Improvement District Nos. 113 and 213 prepared by California Municipal Statistics, Inc. and effective March 1, 2008. The Debt Report–I.D. 113/213 is included for general information purposes only. IRWD has not reviewed the Debt Report–I.D. 113/213 for completeness or accuracy and makes no representation in connection therewith.

The Debt Report–I.D. 113/213 generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of Improvement District Nos. 113 and 213 in whole or in part. Such long-term obligations generally are not payable from revenues of IRWD or Improvement District Nos. 113 and 213 (except as indicated) nor are they necessarily obligations secured by land within Improvement District Nos. 113 and 213. In many cases long-term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency.

The first column in Table 24 names each public agency that has outstanding debt as of the date of the report and whose territory overlaps Improvement District Nos. 113 and 213 in whole or in part. Column 2 shows the percentage of each overlapping agency’s assessed value located within the boundaries of Improvement District Nos. 113 and 213. This percentage, multiplied by the total outstanding debt of each overlapping agency (which is not shown in the table) produces the amount shown in column 3, which is the apportionment of each overlapping agency’s outstanding debt to taxable property in Improvement District Nos. 113 and 213.

TABLE 24
IRVINE RANCH WATER DISTRICT
Improvement District Nos. 113 and 213
Direct and Overlapping Debt Statement

2007-08 Land Only Assessed Valuation: \$691,676,842

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable (1)</u>	<u>Debt 3/1/08</u>
Orange County Teeter Plan Obligations	0.072%	\$ 89,082
Metropolitan Water District	0.015	49,082
Santa Ana Unified School District	0.001	1,260
Tustin Unified School District School Facilities Improvement District No. 2002-1	0.011	2,614
Irvine Unified School District Community Facilities District No. 86-1	0.511	420,936
City of Irvine Community Facilities District No. 2005-2	99.999	23,994,760
Irvine Ranch Water District, I.D. No. 113	100.	6,500,000 (2)
Irvine Ranch Water District, I.D. No. 213	100.	17,400,000 (2)
City of Tustin Community Facilities District Nos. 04-1, 06-1 and 07-1	100.	78,250,000
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$48,512,366
 <u>OVERLAPPING GENERAL FUND DEBT:</u>		
Orange County General Fund Obligations	0.072%	\$ 395,277
Orange County Pension Obligations	0.072	52,366
Orange County Board of Education Certificates of Participation	0.072	14,198
South Orange County Community College District Certificates of Participation	0.167	59,510
Santa Ana Unified School District Certificates of Participation	0.001	662
Tustin Unified School District Certificates of Participation	0.007	452
City of Irvine General Fund Obligations	0.512	123,750
Municipal Water District of Orange County Water Facilities Corporation	0.086	16,594
Orange County Sanitation District Certificates of Participation	0.158	164,699
Irvine Ranch Water District Certificates of Participation	0.711	275,868
Orange County Fire Authority General Fund Obligations	0.140	14,511
TOTAL GROSS OVERLAPPING GENERAL FUND DEBT		\$1,117,887
Less: Santa Ana Unified School District self-supporting Qualified Zone Academy Bonds		14
MWDOC Water Facilities Corporation (100% self-supporting)		16,594
TOTAL NET OVERLAPPING GENERAL FUND DEBT		\$1,101,279
 GROSS COMBINED TOTAL DEBT		\$127,825,621 (3)
NET COMBINED TOTAL DEBT		\$127,809,013

- (1) Based on redevelopment adjusted all property assessed valuation of \$264,698,915
(2) Excludes issues to be sold.
(3) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2007-08 Land Only Assessed Valuation:
Direct Debt (\$23,900,000).....3.46%
Total Direct and Overlapping Tax and Assessment Debt18.32%

Ratios to Adjusted All Property Assessed Valuation:
Gross Combined Total Debt48.29%
Net Combined Total Debt.....48.28%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/07: \$0

Source: California Municipal Statistics, Inc.

Improvement District Nos. 135 and 235

General. Improvement District No. 135 (water) and Improvement District No. 235 (sewer) are coterminous. Improvement District Nos. 135 and 235 were established December 31, 2000 upon the consolidation of the former Los Alisos Water District with IRWD. Improvement District Nos. 135 and 235 cover approximately 5,380 acres in south central Orange County, adjacent to the El Toro Marine Corps Air Station and Interstate 5. The Santa Fe Railway line traverses the southern portion of Improvement District Nos. 135 and 235. Development is approximately 90% complete with remaining development currently zoned for commercial use.

Set forth below is information with respect to Improvement District Nos. 135 and 235. Certain information with respect to these Improvement Districts has been consolidated, where appropriate in light of their coterminous boundaries.

The *ad valorem* assessments levied by IRWD in Improvement District Nos. 135 and 235 to pay such Improvement Districts' respective Included Amounts of debt service on the Series 2008A Bonds will be levied on land only.

Table 25 represents the five-year history of assessed valuations of land in Improvement District Nos. 135 and 235 for Fiscal Years ended June 30, 2004 through June 30, 2008:

TABLE 25
IRVINE RANCH WATER DISTRICT
Improvement District Nos. 135 and 235
Assessed Valuations (Land Only)

	<u>Local Secured</u>	<u>Utility</u>	<u>Unsecured⁽¹⁾</u>	<u>Total</u>
2003-04	\$2,062,215,519	\$264,516	\$4,528,474	\$2,067,008,509
2004-05	2,279,706,419	251,757	5,067,843	2,285,026,019
2005-06	2,553,067,039	256,698	4,828,519	2,558,152,256
2006-07	2,898,036,871	240,431	6,445,819	2,904,723,121
2007-08	3,154,824,099	0 ⁽²⁾	6,621,012	3,161,445,111

⁽¹⁾ Assessed value of unsecured land only.

⁽²⁾ With the enactment of AB 2670, the assessed value of certain railroad property is no longer allocated to individual tax rate areas, but is now allocated to the entire county where such property is located.

Source: California Municipal Statistics, Inc.

Table 26 sets forth information with respect to land-only local secured assessed valuation in Improvement District Nos. 135 and 235 (excluding utility and unsecured property) by land use for the Fiscal Year ending June 30, 2008:

TABLE 26
IRVINE RANCH WATER DISTRICT
Improvement District Nos. 135 and 235
Assessed Valuation and Parcels by Land Use

	2007-08 <u>Assessed Valuation</u> ⁽¹⁾	<u>% of Total</u>	<u>No. of Parcels</u>	<u>% of Total</u>
Non-Residential:				
Commercial	\$369,825,160	11.72%	316	2.39%
Industrial	280,003,131	8.88	305	2.31
Miscellaneous	<u>804,512</u>	<u>0.03</u>	<u>2</u>	<u>0.02</u>
Subtotal Non-Residential	\$650,632,803	20.62%	623	4.71%
Residential:				
Single Family Residence	\$1,812,710,843	57.46%	8,705	65.86%
Condominium/Townhouse	582,894,479	18.48	3,804	28.78
2+ Residential Units/Apartments	58,449,768	1.85	53	0.40
Vacant Residential	<u>50,136,206</u>	<u>1.59</u>	<u>33</u>	<u>0.25</u>
Subtotal Residential	\$2,504,191,296	79.38%	12,595	95.29%
Total	\$3,154,824,099	100.00%	13,218	100.00%

⁽¹⁾ Land Only Local Secured Assessed Valuation; excluding tax-exempt property.

Source: California Municipal Statistics, Inc.

Assessment Rates. IRWD has covenanted under the Indenture that to the extent necessary to pay debt service on the Series 2008A Bonds it will impose and collect Bond Assessments and Charges. See “SECURITY FOR THE SERIES 2008A BONDS – General – Covenant to Collect Bond Assessments and Charges” in the forepart of this Official Statement. Although *ad valorem* assessment bonds are generally payable from *ad valorem* assessments on land within the related improvement districts (including such Bond Assessments and Charges, with respect to the Series 2008A Bonds), IRWD may elect, and from time to time has elected, to apply other available sources to the payment of such debt service. For various reasons, including IRWD making such a discretionary election to use other sources of payment for debt service on *ad valorem* assessment bonds, the annual tax rates set by IRWD vary from year to year and generally do not result in collection of revenues that correspond with debt service requirements on the *ad valorem* assessment bonds. There is no assurance that alternate sources for debt service payments will be available or continue to be available in succeeding years, or that if they are available, IRWD will elect to use them for debt service payments.

Table 27 summarizes the total *ad valorem* tax rates levied by all taxing entities in a typical tax rate area within Improvement District Nos. 135 and 235 during the Fiscal Year ending June 30, 2008:

TABLE 27
IRVINE RANCH WATER DISTRICT
Improvement District Nos. 135 and 235
Typical Total Tax Rates (TRA 30-15)⁽¹⁾

General	1.00000
Saddleback Valley Unified School District	.02668
Metropolitan Water District	<u>.00450</u>
Total All Property Tax Rate	1.03118
Irvine Ranch Water District I.D. No. 135	.00842
Irvine Ranch Water District I.D. No. 235	<u>.00532</u>
Total Land Only Tax Rate	.01374

⁽¹⁾ 2007-08 land-only assessed valuation of TRA 30-15 is \$1,334,361,725, constituting 42.21% of Improvement District total.
Source: California Municipal Statistics, Inc.

Principal Taxpayers. Table 28 lists the major taxpayers in Improvement District Nos. 135 and 235 based on land-only local secured assessed valuations for the Fiscal Year ending June 30, 2008:

TABLE 28
IRVINE RANCH WATER DISTRICT
Improvement District Nos. 135 and 235
Largest Local Secured Taxpayers

<u>Property Owner</u>	<u>Primary Land Use</u>	<u>2007-08 Assessed Valuation</u>	<u>% of Total⁽¹⁾</u>
1. Edgewood Lake Forest Property LLC	Commercial	\$ 25,491,000	0.81%
2. Acquiport Three Corporation	Industrial	22,914,138	0.73
3. TS Palm Terrance LP	Commercial	21,442,000	0.68
4. Calwest Industrial Properties	Industrial	19,372,852	0.61
5. Realty Associates Fund VI	Commercial	14,864,034	0.47
6. Riggs & Co.	Commercial	14,631,233	0.46
7. Bixby Land Company	Commercial	12,229,443	0.39
8. Warmington-Serrano Associates	Apartments	11,946,816	0.38
9. EQR-Siena Terrace LLC	Apartments	11,116,251	0.35
10. UDR Arboretum Apartments LP	Apartments	<u>8,843,400</u>	<u>0.28</u>
		\$162,851,167	5.16%

⁽¹⁾ 2007-08 Local Secured Assessed Valuation (land only): \$3,154,824,099.
Source: California Municipal Statistics, Inc.

Improvement District No. 135 and Improvement District No. 235 Debt Structure.
 Table 29 sets forth the long-term debt structure in Improvement District No. 135 as of January 31, 2008 (but also including such Improvement District's Included Amount of the Series 2008A Bonds):

TABLE 29
IRVINE RANCH WATER DISTRICT
Improvement District No. 135
Debt Structure

<u>Bonds Authorized</u>	<u>Bonds Issued</u>	<u>Bonds Outstanding</u>	<u>Authorized But Unissued</u>
\$20,010,000	\$20,010,000	\$4,970,000	\$0

Source: IRWD.

Table 30 presents the changes in long-term debt for Improvement District No. 135 for the seven months ended January 31, 2008:

TABLE 30
IRVINE RANCH WATER DISTRICT
Improvement District No. 135
Schedule of Long-Term Debt, as of January 31, 2008

<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance January 31, 2008</u>
\$4,968,000	\$0	\$0	\$4,968,000

Source: IRWD.

Table 31 sets forth the long-term debt structure in Improvement District No. 235 as of January 31, 2008 (but also including such Improvement District's Included Amount of the Series 2008A Bonds):

TABLE 31
IRVINE RANCH WATER DISTRICT
Improvement District No. 235
Debt Structure

<u>Bonds Authorized</u>	<u>Bonds Issued</u>	<u>Bonds Outstanding</u>	<u>Authorized But Unissued</u>
\$15,724,000	\$15,724,000	\$2,989,000	\$0

Source: IRWD.

Table 32 presents the changes in long-term debt for Improvement District No. 235 for the seven months ended January 31, 2008 is shown below:

TABLE 32
IRVINE RANCH WATER DISTRICT
Improvement District No. 235
Schedule of Long-Term Debt, as of January 31, 2008

<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>January 31, 2008</u>
\$2,989,000	\$0	\$0	\$2,989,000

Source: IRWD.

Statement of Direct and Overlapping Debt. Set forth in Table 33 is a direct and overlapping debt report (the “Debt Report–I.D. 135/235”) for Improvement District Nos. 135 and 235 prepared by California Municipal Statistics, Inc. and effective March 1, 2008. The Debt Report–I.D. 135/235 is included for general information purposes only. IRWD has not reviewed the Debt Report–I.D. 135/235 for completeness or accuracy and makes no representation in connection therewith.

The Debt Report–I.D. 135/235 generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of Improvement Districts No. 135 and No. 235 in whole or in part. Such long-term obligations generally are not payable from revenues of IRWD or Improvement Districts No. 135 and No. 235 (except as indicated) nor are they necessarily obligations secured by land within Improvement Districts No. 135 and No. 235. In many cases long-term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency.

The first column in the table names each public agency that has outstanding debt as of the date of the report and whose territory overlaps Improvement Districts No. 135 and No. 235 in whole or in part. Column 2 shows the percentage of each overlapping agency’s assessed value located within the boundaries of Improvement Districts No. 135 and No. 235. This percentage, multiplied by the total outstanding debt of each overlapping agency (which is not shown in the table) produces the amount shown in column 3, which is the apportionment of each overlapping agency’s outstanding debt to taxable property in Improvement Districts No. 135 and No. 235.

TABLE 33
IRVINE RANCH WATER DISTRICT
Improvement District Nos. 135 and 235
Direct and Overlapping Debt Statement

2007-08 Land Only Assessed Valuation: \$3,161,445,111

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable (1)</u>	<u>Debt 3/1/08</u>
Orange County Teeter Plan Obligations	1.610%	\$ 1,991,973
Metropolitan Water District	0.334	1,092,898
Saddleback Valley Unified School District	19.808	28,222,438
Irvine Ranch Water District, I.D. Nos. 135/235	100.	4,970,000 (2)
Irvine Ranch Water District I.D. No. 235	100.	2,989,000 (2)
Orange County Community Facilities Districts	0.095-100.	<u>23,757,503</u>
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$63,023,812
<u>OVERLAPPING GENERAL FUND DEBT:</u>		
Orange County General Fund Obligations	1.610%	\$ 8,838,836
Orange County Pension Obligations	1.610	1,170,951
Orange County Board of Education Certificates of Participation	1.610	317,492
South Orange County Community College District Certificates of Participation	3.735	1,330,967
City of Lake Forest Certificates of Participation	57.276	5,017,378
Municipal Water District of Orange County Water Facilities Corporation	1.916	369,692
Orange County Fire Authority General Fund Obligations	3.129	324,321
Irvine Ranch Water District Certificates of Participation	9.030	<u>3,503,640</u>
TOTAL GROSS OVERLAPPING GENERAL FUND DEBT		\$20,873,277
Less: City of Lake Forest Certificates of Participation (100% self-supporting from tax increment revenues)		5,017,378
MWDOC Water Facilities Corporation (100% self-supporting)		<u>369,692</u>
TOTAL NET OVERLAPPING GENERAL FUND DEBT		\$15,486,207
GROSS COMBINED TOTAL DEBT		\$83,897,089 (3)
NET COMBINED TOTAL DEBT		\$78,510,019

(1) Based on 2007-08 redevelopment adjusted all property assessed valuation of \$5,921,249,889.

(2) Excludes issue to be sold.

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

Ratios to 2007-08 Land Only Assessed Valuation:

Direct Debt (\$7,959,000)	0.25%
Total Direct and Overlapping Tax and Assessment Debt	1.99%

Ratios to 2007-08 All Property Assessed Valuation:

Gross Combined Total Debt	1.42%
Net Combined Total Debt.....	1.33%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/07: \$0

Source: California Municipal Statistics, Inc.

Improvement District Nos. 161 and 261

General. Improvement District No. 161 (water) and Improvement District No. 261 (sewer) are generally coterminous and encompass approximately 5,900 acres south of the San Diego Freeway up to the San Joaquin Hills ridgeline. Currently approved general plan land use includes large areas of open space mixed with existing and planned residential development. IRWD expects development in Improvement District Nos. 161 and 261 to continue until 2010.

Set forth below is information with respect to Improvement District Nos. 161 and 261. Certain information with respect to these Improvement Districts has been consolidated, where appropriate in light of their generally coterminous boundaries.

The *ad valorem* assessments levied by IRWD in Improvement District Nos. 161 and 261 to pay such Improvement Districts' respective Included Amounts of debt service on the Series 2008A Bonds will be levied on land only.

Table 34 represents the five-year history of assessed valuations of land in Improvement District No. 161:

TABLE 34
IRVINE RANCH WATER DISTRICT
Improvement District No. 161
Assessed Valuations (Land Only)

	<u>Local Secured</u>	<u>Utility</u>	<u>Unsecured⁽¹⁾</u>	<u>Total</u>
2003-04	\$1,398,433,040	\$0	\$1,317,591	\$1,399,750,631
2004-05	2,007,153,739	0	1,560,662	2,008,714,401
2005-06	2,817,492,876	0	3,009,411	2,820,502,287
2006-07	3,260,457,444	0	3,100,302	3,263,557,746
2007-08	3,593,517,713	0	2,917,270	3,596,434,983

⁽¹⁾ Assessed value of unsecured land only.

Source: California Municipal Statistics, Inc.

Table 35 represents the five-year history of assessed valuations of land in Improvement District No. 261:

TABLE 35
IRVINE RANCH WATER DISTRICT
Improvement District No. 261
Assessed Valuations (Land Only)

	<u>Local Secured</u>	<u>Utility</u>	<u>Unsecured⁽¹⁾</u>	<u>Total</u>
2003-04	\$1,398,433,040	\$0	\$1,317,591	\$1,399,750,631
2004-05	2,007,153,739	0	1,560,662	2,008,714,401
2005-06	2,817,492,876	0	3,009,411	2,820,502,287
2006-07	3,382,835,586	0	3,487,024	3,386,322,610
2007-08	3,723,380,975	0	2,962,974	3,726,343,949

⁽¹⁾ Assessed value of unsecured land only.

Source: California Municipal Statistics, Inc.

Table 36 sets forth information with respect to land-only local secured assessed valuation in Improvement District No. 161 (excluding utility and unsecured property) by land use for the Fiscal Year ending June 30, 2008:

TABLE 36
IRVINE RANCH WATER DISTRICT
Improvement District No. 161
Assessed Valuation and Parcels by Land Use

	2007-08 <u>Assessed Valuation</u> ⁽¹⁾	<u>% of Total</u>	<u>No. of Parcels</u>	<u>% of Total</u>
Non-Residential:				
Commercial	\$194,932,295	5.42%	76	1.03%
Industrial	<u>448,983</u>	<u>0.01</u>	<u>2</u>	<u>0.03</u>
Subtotal Non-Residential	\$195,381,278	5.44%	78	1.06%
Residential:				
Single Family Residence	\$2,016,244,691	56.11%	3,255	44.27%
Condominium/Townhouse	1,339,656,745	37.28	3,990	54.26
2+ Residential Units/Apartments	<u>42,234,999</u>	<u>1.18</u>	<u>30</u>	<u>0.41</u>
Subtotal Residential	\$3,398,136,435	94.56%	7,275	98.94%
Total	\$3,593,517,713	100.00%	7,353	100.00%

⁽¹⁾ Land Only Local Secured Assessed Valuation; excluding tax-exempt property.
Source: California Municipal Statistics, Inc.

Table 37 sets forth information with respect to land-only local secured assessed valuation in Improvement District No. 261 (excluding utility and unsecured property) by land use for the Fiscal Year ending June 30, 2008:

TABLE 37
IRVINE RANCH WATER DISTRICT
Improvement District No. 261
Assessed Valuation and Parcels by Land Use

	2007-08 <u>Assessed Valuation</u> ⁽¹⁾	<u>% of Total</u>	<u>No. of Parcels</u>	<u>% of Total</u>
Non-Residential:				
Commercial	\$194,932,295	5.24%	76	1.00%
Industrial	<u>448,983</u>	<u>0.01</u>	<u>2</u>	<u>0.03</u>
Subtotal Non-Residential	\$195,381,278	5.25%	78	1.02%
Residential:				
Single Family Residence	\$2,089,459,929	56.12%	3,418	44.77%
Condominium/Townhouse	1,371,974,022	36.85	4,097	53.66
2+ Residential Units/Apartments	<u>66,565,683</u>	<u>1.79</u>	<u>42</u>	<u>0.55</u>
Subtotal Residential	\$3,527,999,697	94.75%	7,557	98.98%
Total	\$3,723,380,975	100.00%	7,635	100.00%

⁽¹⁾ Land Only Local Secured Assessed Valuation; excluding tax-exempt property.
Source: California Municipal Statistics, Inc.

Assessment Rates. IRWD has covenanted under the Indenture that to the extent necessary to pay debt service on the Series 2008A Bonds it will impose and collect Bond

Assessments and Charges. See “SECURITY FOR THE SERIES 2008A BONDS – General – Covenant to Collect Bond Assessments and Charges” in the forepart of this Official Statement. Although *ad valorem* assessment bonds are generally payable from *ad valorem* assessments on land within the related improvement districts (including such Bond Assessments and Charges, with respect to the Series 2008A Bonds), IRWD may elect, and from time to time has elected, to apply other available sources to the payment of such debt service. For various reasons, including IRWD making such a discretionary election to use other sources of payment for debt service on *ad valorem* assessment bonds, the annual tax rates set by IRWD vary from year to year and generally do not result in collection of revenues that correspond with debt service requirements on the *ad valorem* assessment bonds. There is no assurance that alternate sources for debt service payments will be available or continue to be available in succeeding years, or that if they are available, IRWD will elect to use them for debt service payments.

Table 38 summarizes the total *ad valorem* tax rates levied by all taxing entities in a typical tax rate area within Improvement District Nos. 161 and 261 for the Fiscal Year ending June 30, 2008:

TABLE 38
IRVINE RANCH WATER DISTRICT
Improvement District Nos. 161 and 261
Typical Total Tax Rates (TRA 26-73)⁽¹⁾

General	1.00000
Metropolitan Water District	<u>.00450</u>
Total All Property Tax Rate	1.00450
Irvine Ranch Water District I.D. No. 106	.01648
Irvine Ranch Water District I.D. No. 161	.00001
Irvine Ranch Water District I.D. No. 206	.02330
Irvine Ranch Water District I.D. No. 261	<u>.00001</u>
Total Land-Only Tax Rate	.03980

⁽¹⁾ 2007-08 land-only assessed valuation of TRA 26-73 is \$666,883,781, constituting 18.54% of Improvement District No. 161’s assessed valuation and 17.90% of Improvement District No. 261’s assessed valuation.
Source: California Municipal Statistics, Inc.

Principal Taxpayers. Table 39 lists the major taxpayers in Improvement District No. 161 based on land-only local secured assessed valuations for the Fiscal Year ending June 30, 2008:

**TABLE 39
IRVINE RANCH WATER DISTRICT
Improvement District No. 161
Largest Local Secured Taxpayers**

<u>Property Owner</u>	<u>Primary Land Use</u>	<u>2007-08 Assessed Valuation</u>	<u>% of Total⁽¹⁾</u>
1. The Irvine Company	Commercial	\$ 49,231,144	1.37%
2. Irvine Apartment Communities	Apartments	30,109,678	0.84
3. 100 Bayview LLC	Commercial	29,617,740	0.82
4. Fit Ren Park LP	Commercial	10,424,400	0.29
5. Downey S&L Association	Commercial	8,529,864	0.24
6. Newport Bluffs LLC	Apartments	7,512,238	0.21
7. HMH Properties Inc.	Commercial	6,807,636	0.19
8. Sand Canyon LLC	Commercial	5,202,000	0.14
9. Yoshio Fuse	Residential	5,098,772	0.14
10. Christopher R. Pronger Trust	Residential	<u>5,017,953</u>	<u>0.14</u>
		\$157,551,425	4.38%

⁽¹⁾ Land-Only 2007-08 Local Secured Assessed Valuation: \$3,593,517,713.
Source: California Municipal Statistics, Inc.

Table 40 lists the major taxpayers in Improvement District No. 261 based on land-only local secured assessed valuations for the Fiscal Year ending June 30, 2008:

**TABLE 40
IRVINE RANCH WATER DISTRICT
Improvement District No. 261
Largest Local Secured Taxpayers**

<u>Property Owner</u>	<u>Primary Land Use</u>	<u>2007-08 Assessed Valuation</u>	<u>% of Total⁽¹⁾</u>
1. Irvine Apartment Communities	Apartments	\$ 54,440,362	1.46%
2. The Irvine Company	Commercial	50,633,963	1.36
3. 100 Bayview LLC	Commercial	29,617,740	0.80
4. Fit Ren Park LP	Commercial	10,424,400	0.28
5. Downey S&L Association	Commercial	8,529,864	0.23
6. Newport Bluffs LLC	Apartments	7,512,238	0.20
7. HMH Properties Inc.	Commercial	6,807,636	0.18
8. Fletcher Jones Motor Cars Inc.	Commercial	5,898,338	0.16
9. Sand Canyon LLC	Commercial	5,202,000	0.14
10. Christopher R. Pronger, Trust	Residential	<u>5,017,953</u>	<u>0.13</u>
		\$184,084,494	4.94%

⁽¹⁾ Land-Only 2007-08 Local Secured Assessed Valuation: \$3,723,380,975.
Source: California Municipal Statistics, Inc.

Improvement District No. 161 Debt Structure. Table 41 sets forth the long-term debt structure in Improvement District No. 161 as of January 31, 2008 (but also including such Improvement District's Included Amount of the Series 2008A Bonds):

**TABLE 41
IRVINE RANCH WATER DISTRICT
Improvement District No. 161
Debt Structure**

<u>Bonds Authorized</u>	<u>Bonds Issued</u>	<u>Bonds Outstanding</u>	<u>Authorized But Unissued</u>
\$40,786,000	\$1,835,000	\$1,149,704	\$38,951,000

Source: IRWD.

Table 42 presents the changes in long-term debt for Improvement District No. 161 for the seven months ended January 31, 2008.

**TABLE 42
IRVINE RANCH WATER DISTRICT
Improvement District No. 161
Schedule of Long-Term Debt, as of January 31, 2008**

<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance January 31, 2008</u>
\$1,149,704	\$0	\$0	\$1,149,704

Source: IRWD.

Improvement District No. 261 Debt Structure. Table 43 sets forth the long-term debt structure in Improvement District No. 261 as of January 31, 2008 (but also including such Improvement District's Included Amount of the Series 2008A Bonds):

**TABLE 43
IRVINE RANCH WATER DISTRICT
Improvement District No. 261
Debt Structure**

<u>Bonds Authorized</u>	<u>Bonds Issued</u>	<u>Bonds Outstanding</u>	<u>Authorized But Unissued</u>
\$46,364,000	\$2,375,000	\$1,183,538	\$43,989,000

Source: IRWD.

Table 44 presents the changes in long-term debt for Improvement District No. 261 for the seven months ended January 31, 2008:

TABLE 44
IRVINE RANCH WATER DISTRICT
Improvement District No. 261
Schedule of Long-Term Debt, as of January 31, 2008

<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>January 31, 2008</u>
\$1,183,538	\$0	\$0	\$1,183,538

Source: IRWD.

Statement of Direct and Overlapping Debt. Set forth in Tables 45 and 46 are direct and overlapping debt reports (the “Debt Reports–I.D. 161/261”) for Improvement District Nos. 161 and 261, respectively, prepared by California Municipal Statistics, Inc. and effective March 1, 2008. The Debt Reports–I.D. 161/261 are included for general information purposes only. IRWD has not reviewed the Debt Reports–I.D. 161/261 for completeness or accuracy and makes no representation in connection therewith.

The Debt Reports–I.D. 161/261 generally include long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of Improvement District Nos. 161 and 261 in whole or in part. Such long-term obligations generally are not payable from revenues of IRWD or Improvement District Nos. 161 and 261 (except as indicated) nor are they necessarily obligations secured by land within Improvement District Nos. 161 and 261. In many cases long-term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency.

The first column in the table names each public agency that has outstanding debt as of the date of the report and whose territory overlaps Improvement District Nos. 161 and 261 in whole or in part. Column 2 shows the percentage of each overlapping agency’s assessed value located within the boundaries of Improvement District Nos. 161 and 261. This percentage, multiplied by the total outstanding debt of each overlapping agency (which is not shown in the table) produces the amount shown in column 3, which is the apportionment of each overlapping agency’s outstanding debt to taxable property in Improvement District Nos. 161 and 261.

TABLE 45
IRVINE RANCH WATER DISTRICT
Improvement District No. 161
Direct and Overlapping Debt Statement

2007-08 Land Only Assessed Valuation: \$3,596,434,983

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable (1)</u>	<u>Debt 3/1/08</u>
Orange County Teeter Plan Obligations	1.559%	\$ 1,928,873
Metropolitan Water District	0.324	1,060,177
Coast Community College District	0.019	66,074
Newport Mesa Unified School District	2.273	3,831,448
Irvine Ranch Water District, I.D. No. 106	96.740	1,956,015
Irvine Ranch Water District, I.D. No. 206	91.425	1,448,885
Irvine Ranch Water District, I.D. No. 161	100.	1,149,704 (2)
Irvine Ranch Water District, I.D. No. 261	96.193	1,138,481
Bonita Canyon Community Facilities District No. 98-1	100.	42,615,000
Irvine Unified School District Community Facilities District No. 01-1	76.525	77,692,006
City and County 1915 Act Bonds	0.077-100.	<u>61,158,940</u>
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$194,045,603
 <u>OVERLAPPING GENERAL FUND DEBT:</u>		
Orange County Teeter Plan Obligations	1.559%	\$ 8,558,848
Orange County Pension Obligations	1.559	1,133,859
Orange County Board of Education Certificates of Participation	1.559	307,435
South Orange County Community College District Certificates of Participation	3.606	1,284,998
Newport-Mesa Unified School District Certificates of Participation	2.273	23,185
City of Irvine General Fund Obligations	10.850	2,622,445
City of Newport Beach Certificates of Participation	2.875	143,175
Municipal Water District of Orange County Water Facilities Corporation	1.855	357,922
Orange County Sanitation District Certificates of Participation	2.309	2,406,902
Orange County Fire Authority General Fund Obligations	2.496	258,710
Irvine Ranch Water District Certificates of Participation	10.420	<u>4,042,960</u>
TOTAL GROSS OVERLAPPING GENERAL FUND DEBT		\$ 21,140,439
Less: MWDOC Water Facilities Corporation (100% self-supporting)		<u>357,922</u>
TOTAL NET OVERLAPPING GENERAL FUND DEBT		\$ 20,782,517
 GROSS COMBINED TOTAL DEBT		\$215,186,042 (3)
NET COMBINED TOTAL DEBT		\$214,828,120

(1) Based on 2007-08 redevelopment adjusted all property assessed valuation of \$5,733,451,318.

(2) Excludes issue to be sold.

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

Ratios to 2007-08 Land Only Assessed Valuation:

Direct Debt (\$1,149,704)	0.03%
Total Direct and Overlapping Tax and Assessment Debt	5.40%

Ratios to 2007-08 Adjusted All Property Assessed Valuation:

Gross Combined Total Debt	3.75%
Net Combined Total Debt.....	3.75%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/07: \$0

Source: California Municipal Statistics, Inc.

TABLE 46
IRVINE RANCH WATER DISTRICT
Improvement District No. 261
Direct and Overlapping Debt Statement

2007-08 Land Only Assessed Valuation: \$3,726,343,949

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable (1)</u>	<u>Debt 3/1/08</u>
Orange County Teeter Plan Obligations	1.638%	\$ 2,026,616
Metropolitan Water District	0.340	1,112,531
Coast Community College District	0.056	194,745
Newport Mesa Unified School District	2.923	4,927,111
Irvine Ranch Water District, I.D. No. 106	95.513	1,951,425
Irvine Ranch Water District, I.D. No. 140	0.023	3,487
Irvine Ranch Water District, I.D. No. 206	95.320	1,510,612
Irvine Ranch Water District, I.D. No. 161	99.765	1,147,002
Irvine Ranch Water District, I.D. No. 240	0.023	6,892
Irvine Ranch Water District, I.D. No. 261	100.	1,183,538 (2)
Bonita Canyon Community Facilities District No. 98-1	100.	42,615,000
Irvine Unified School District Community Facilities District No. 01-1	76.525	77,692,006
City and County 1915 Act Bonds	0.077-100.	<u>62,235,134</u>
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$196,606,099
<u>OVERLAPPING GENERAL FUND DEBT:</u>		
Orange County Teeter Plan Obligations	1.638%	\$ 8,992,554
Orange County Pension Obligations	1.638	1,191,315
Orange County Board of Education Certificates of Participation	1.638	323,014
South Orange County Community College District Certificates of Participation	3.768	1,342,727
Newport-Mesa Unified School District Certificates of Participation	2.923	29,815
City of Irvine General Fund Obligations	10.848	2,621,962
City of Newport Beach Certificates of Participation	3.697	184,111
Municipal Water District of Orange County Water Facilities Corporation	1.948	375,867
Orange County Sanitation District Certificates of Participation	2.410	2,512,184
Orange County Fire Authority	2.496	258,710
Irvine Ranch Water District Certificates of Participation	10.807	<u>4,193,116</u>
TOTAL GROSS OVERLAPPING GENERAL FUND DEBT		\$ 22,025,375
Less: MWDOC Water Facilities Corporation (100% self-supporting)		<u>375,867</u>
TOTAL NET OVERLAPPING GENERAL FUND DEBT		\$ 21,649,508
GROSS COMBINED TOTAL DEBT		\$218,631,474 (3)
NET COMBINED TOTAL DEBT		\$218,255,607

(1) Based on 2007-08 redevelopment adjusted all property assessed valuation of \$6,021,720,384.

(2) Excludes issue to be sold.

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

Ratios to 2007-08 Land Only Assessed Valuation:

Direct Debt (\$1,183,538).....0.03%
Total Direct and Overlapping Tax and Assessment Debt.....5.28%

Ratios to 2007-08 Adjusted All Property Assessed Valuation:

Gross Combined Total Debt.....3.63%
Net Combined Total Debt.....3.62%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/07: \$0

Source: California Municipal Statistics, Inc.

Improvement District No. 182

General. Improvement District No. 182 (water) consists of approximately 1,791 acres located in the foothills and canyons in the eastern portion of IRWD and bounded by the 241 Toll Road and Alton Parkway. Improvement District No. 182 provides regional and local water supply, storage, transmission and distribution facilities for approximately 3,900 residential units in the Foothill Ranch Planned Community. The residential units are comprised of detached single-family homes, town homes, condominiums and apartments.

The *ad valorem* assessments levied by IRWD in Improvement District No. 182 to pay such Improvement District's Included Amounts of debt service on the Series 2008A Bonds will be levied on land only.

Table 47 represents the five-year history of assessed valuations of land in Improvement District No. 182:

**TABLE 47
IRVINE RANCH WATER DISTRICT
Improvement District No. 182
Assessed Valuations (Land Only)**

	<u>Local Secured</u>	<u>Utility</u>	<u>Unsecured⁽¹⁾</u>	<u>Total</u>
2003-04	\$367,379,519	\$0	\$ 607,231	\$367,986,750
2004-05	429,865,962	0	600,638	430,466,600
2005-06	509,371,089	0	513,245	509,884,334
2006-07	643,569,573	0	899,480	644,469,053
2007-08	720,602,896	0	1,282,145	721,885,041

⁽¹⁾ Assessed value of unsecured land only.

Sources: *California Municipal Statistics, Inc.* and *Orange County Auditor-Controller.*

Table 48 sets forth information with respect to land-only local secured assessed valuation in Improvement District No. 182 (excluding utility and unsecured property) by land use for the Fiscal Year ending June 30, 2008:

**TABLE 48
IRVINE RANCH WATER DISTRICT
Improvement District No. 182
Assessed Valuation and Parcels by Land Use**

	2007-08 <u>Assessed Valuation⁽¹⁾</u>	% of <u>Total</u>	No. of <u>Parcels</u>	% of <u>Total</u>
Non-Residential:				
Commercial	<u>\$2,488,636</u>	<u>0.35%</u>	<u>1</u>	<u>0.03%</u>
Subtotal Non-Residential	\$2,488,636	0.35%	1	0.03%
Residential:				
Single Family Residence	\$518,937,837	72.01%	2,612	73.91%
Condominium/Townhouse	181,420,983	25.18	891	25.21
2+ Residential Units/Apartments	<u>17,755,440</u>	<u>2.46</u>	<u>30</u>	<u>0.85</u>
Subtotal Residential	\$718,114,260	99.65%	3,533	99.97%
Total	\$720,602,896	100.00%	3,534	100.00%

⁽¹⁾ Land-Only Local Secured Assessed Valuation; excluding tax-exempt property.

Source: *California Municipal Statistics, Inc.*

Assessment Rates. IRWD has covenanted under the Indenture that to the extent necessary to pay debt service on the Series 2008A Bonds it will impose and collect Bond Assessments and Charges. See “SECURITY FOR THE SERIES 2008A BONDS — General – Covenant to Collect Bond Assessments and Charges” in the forepart of this Official Statement. Although *ad valorem* assessment bonds are generally payable from *ad valorem* assessments on land within the related improvement districts (including such Bond Assessments and Charges, with respect to the Series 2008A Bonds), IRWD may elect, and from time to time has elected, to apply other available sources to the payment of such debt service. For various reasons, including IRWD making such a discretionary election to use other sources of payment for debt service on *ad valorem* assessment bonds, the annual tax rates set by IRWD vary from year to year and generally do not result in collection of revenues that correspond with debt service requirements on the *ad valorem* assessment bonds. There is no assurance that alternate sources for debt service payments will be available or continue to be available in succeeding years, or that if they are available, IRWD will elect to use them for debt service payments.

Table 49 summarizes the total *ad valorem* tax rates levied by all taxing entities in a typical tax rate area within Improvement District No. 182 during the Fiscal Year ending June 30, 2008.

TABLE 49
IRVINE RANCH WATER DISTRICT
Improvement District No. 182
Typical Total Tax Rates (TRA 30-150)⁽¹⁾

General	1.00000
Saddleback Valley Unified School District	.02668
Metropolitan Water District	<u>.00450</u>
Total All Property Tax Rate	1.03118
Irvine Ranch Water District I.D. No. 182	.01300
Irvine Ranch Water District I.D. No. 282	<u>.01400</u>
Total Land-Only Tax Rate	.02700

⁽¹⁾ 2007-08 land-only assessed valuation of TRA 30-150 is \$212,057,410, constituting 29.38% of Improvement District total.
Source: California Municipal Statistics, Inc.

Principal Taxpayers. Table 50 lists the major taxpayers in Improvement District No. 182 based on land-only local secured assessed valuations for the Fiscal Year ending June 30, 2008:

**TABLE 50
IRVINE RANCH WATER DISTRICT
Improvement District No. 182
Largest Local Secured Taxpayers**

<u>Property Owner</u>	<u>Primary Land Use</u>	<u>2007-08 Assessed Valuation</u>	<u>% of Total⁽¹⁾</u>
1. Stonebridge Investors Ltd.	Apartments	\$10,815,107	1.50%
2. EQR-Connor LLC	Apartments	6,880,375	0.95
3. Towne Centre JP&PL LLC	Commercial	2,488,636	0.35
4. Riz G. Campos	Residence	983,717	0.14
5. Larry J. Card	Residence	917,001	0.13
6. Anthony & Denise Marie Bon Dino	Residence	745,363	0.10
7. Martin Gerald Edwards	Residence	725,405	0.10
8. Jon S. Mills	Residence	723,944	0.10
9. Kevin Brush	Residence	712,907	0.10
10. Kim M. Titherington	Residence	<u>705,681</u>	<u>0.10</u>
		\$25,698,136	3.57%

⁽¹⁾ Land-Only 2007-08 Local Secured Assessed Valuation: \$720,602,896.

Source: California Municipal Statistics, Inc.

Improvement District No. 182 Debt Structure. Table 51 sets forth the long-term debt structure in Improvement District No. 105 as of January 31, 2008 (but also including such Improvement District's Included Amount of the Series 2008A Bonds):

**TABLE 51
IRVINE RANCH WATER DISTRICT
Improvement District No. 182
Debt Structure**

<u>Bonds Authorized</u>	<u>Bonds Issued</u>	<u>Bonds Outstanding</u>	<u>Authorized But Unissued</u>
\$74,653,000	\$7,707,000	\$356,000	\$66,946,000

Source: IRWD.

Table 52 presents the changes in long-term debt for Improvement District No. 182 for the seven months ended January 31, 2008:

TABLE 52
IRVINE RANCH WATER DISTRICT
Improvement District No. 182
Schedule of Long-Term Debt, as of January 31, 2008

<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>January 31, 2008</u>
\$3,960,000	\$0	\$400,000	\$3,560,000

Source: IRWD.

Statement of Direct and Overlapping Debt. Set forth in Table 53 is a direct and overlapping debt report (the “Debt Report–I.D. 182”) for Improvement District No. 182 prepared by California Municipal Statistics, Inc. and effective March 1, 2008. The Debt Report–I.D. 182 is included for general information purposes only. IRWD has not reviewed the Debt Report–I.D. 182 for completeness or accuracy and makes no representation in connection therewith.

The Debt Report–I.D. 182 generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of Improvement District No. 182 in whole or in part. Such long-term obligations generally are not payable from revenues of IRWD or Improvement District No. 182 (except as indicated) nor are they necessarily obligations secured by land within Improvement District No. 182. In many cases long-term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency.

The first column in the table names each public agency that has outstanding debt as of the date of the report and whose territory overlaps Improvement District No. 182 in whole or in part. Column 2 shows the percentage of each overlapping agency’s assessed value located within the boundaries of Improvement District No. 182. This percentage, multiplied by the total outstanding debt of each overlapping agency (which is not shown in the table) produces the amount shown in column 3, which is the apportionment of each overlapping agency’s outstanding debt to taxable property in Improvement District No. 182.

TABLE 53
IRVINE RANCH WATER DISTRICT
Improvement District No. 182
Direct and Overlapping Debt Statement

2007-08 Land Only Assessed Valuation: \$721,885,041

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable (1)</u>	<u>Debt 3/1/08</u>
Orange County Teeter Plan Obligations	0.388%	\$ 480,053
Metropolitan Water District	0.081	265,044
Saddleback Valley Unified School District	4.781	6,811,969
Irvine Ranch Water District, I.D. No. 182	100.	3,560,000 (2)
Irvine Ranch Water District, I.D. No. 282	100.	2,200,000
Orange County Community Facilities District No. 87-4	58.185	<u>34,842,882</u>
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$48,159,948
<u>OVERLAPPING GENERAL FUND DEBT:</u>		
Orange County General Fund Obligations	0.388%	\$2,130,104
Orange County Pension Obligations	0.388	282,192
Orange County Board of Education Certificates of Participation	0.388	76,514
South Orange County Community College District Certificates of Participation	0.900	320,715
City of Lake Forest General Fund Obligations	13.808	1,209,581
Municipal Water District of Orange County Water Facilities Corporation	0.462	89,143
Orange County Sanitation District Certificates of Participation	0.554	577,490
Irvine Ranch Water District Certificates of Participation	2.150	834,200
Orange County Fire Authority General Fund Obligations	0.754	<u>78,152</u>
TOTAL GROSS OVERLAPPING GENERAL FUND DEBT		\$5,598,091
Less: MWDOC Water Facilities Corporation (100% self-supporting)		89,143
City of Lake Forest self-supporting bonds (100% self-supporting)		<u>1,209,581</u>
TOTAL NET OVERLAPPING GENERAL FUND DEBT		\$4,299,367
GROSS COMBINED TOTAL DEBT		\$53,758,039 (3)
NET COMBINED TOTAL DEBT		\$52,459,315

(1) Based on 2007-08 all property assessed valuation of \$1,427,488,805.

(2) Excludes issues to be sold.

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

Ratios to 2007-08 Land Only Assessed Valuation:

Direct Debt (\$3,560,000)0.49%
Total Direct and Overlapping Tax and Assessment Debt 6.67%

Ratios to 2007-08 Adjusted All Property Assessed Valuation:

Gross Combined Total Debt 3.77%
Net Combined Total Debt..... 3.67%

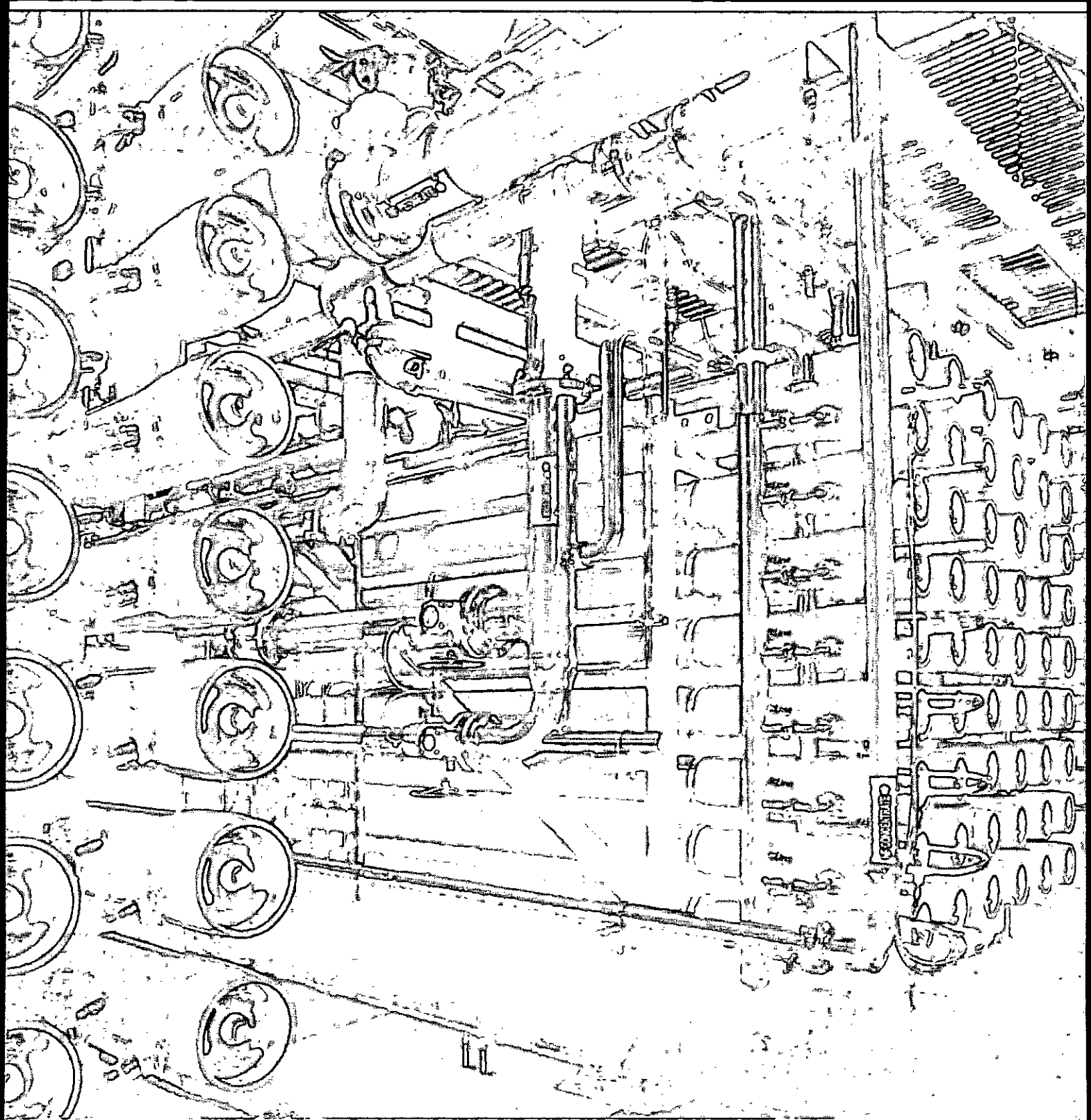
STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/07: \$0

Source: California Municipal Statistics, Inc.

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APPENDIX B
AUDITED FINANCIAL STATEMENTS

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COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR FISCAL YEAR ENDED JUNE 30, 2007
IRVINE, CALIFORNIA

Irvine
Ranch
Water
District



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Comprehensive Annual Financial Report

For Fiscal Year Ended June 30, 2007

Irvine Ranch Water District
Irvine, California

Board of Directors
Douglas J. Reinhart, President
Darryl G. Miller, Vice President
Mary Aileen Matheis
Peer A. Swan
John B. Withers

Paul D. Jones II, General Manager

Prepared by:
Irvine Ranch Water District
Finance Department

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Table of Contents

Introductory Section

- 1 Letter of Transmittal
- 2 Profile of Irvine Ranch Water District
 - 2 – Overview
 - 3 – Our People
 - 3 – Our Services
 - 3 Drinking or “Potable” Water System
 - 3 Recycled Water System
 - 4 Wastewater Collection and Treatment System
 - 4 Urban Runoff and Source Control Treatment System
 - 5 – Our Financial Plan
 - 5 – Our User Rates & Charges
- 8 Factors Affecting Financial Condition
 - 8 – Local Economy
 - 8 – Financial Planning & Budgeting
 - 8 Short-Term
 - 8 Long-Term
 - 10 – Cash Management Policies and Practices
 - 11 – Debt Management Policies and Practices
 - 11 – Risk Management
- 12 Major Initiatives
 - 12 – Water Supply Security
 - 12 *Groundwater Program*
 - 12 *Irvine Desalter Project*
 - 13 *Water Banking*
 - 13 *Baker Treatment Plant*
 - 14 – Expanded Wastewater Treatment Options and Reliability
 - 14 *Developing Additional Reclaimed Water Seasonal Storage*
 - 15 – Expanded SCADA Control Systems
 - 15 – Water Conservation Program Implementation
- 16 Awards and Acknowledgments
- 17 List of Principal Officials
- 18 Organizational Chart by Function
- 19 GFOA Certificate of Achievement for Excellence in Financial Reporting

Financial Section

- 20 Independent Auditors’ Report
- 22 Management’s Discussion and Analysis
- 28 **Basic Financial Statements**
 - 28 – Statement of Net Assets
 - 30 – Statement of Revenues, Expenses and Changes in Net Assets
 - 31 – Statement of Cash Flows
 - 33 – Notes to the Basic Financial Statements
- 65 **Supplementary Information**
 - 66 – Combining Schedule of Net Assets – Water Subfunds
 - 70 – Combining Schedule of Net Assets – Sewer Subfunds

Statistical Section

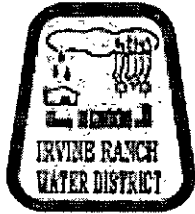
- 76 **Financial Trends Information**
 - 77 – Net Assets
 - 78 – Changes in Net Assets
- 79 **Revenue Capacity**
 - 79 – Water Sold by Type of Customer
 - 80 – Water Rates
 - 81 – Water Customers
 - 82 – Sewer Rates
 - 83 – Sewer Customers
 - 84 – Ad Valorem Property Tax Rates
 - 86 – Assessed Valuation and Estimated Actual Value of Taxable Property
 - 87 – Direct and Overlapping Tax Rates
 - 88 – Direct and Overlapping Debt
 - 89 – Principal Property Taxpayers
 - 90 – Property Tax Collections/Delinquencies
- 91 **Debt Capacity Information**
 - 91 – Outstanding General Obligation Debt by Improvement District
 - 92 – Outstanding Debt by Type
 - 93 – Ratios of Outstanding Debt to Assessed Values
 - 100 – Ratios of Annual Debt Service to Total General Expenditures
 - 102 – Debt Service Coverage
- 104 **Demographic and Economic Information**
 - 104 – Demographic and Economic Statistics
 - 105 – Principal employers
 - 106 – Full-Time and Part Time Employees of IRWD
- 107 **Operating Information**
 - 107 – Operating Indicators - Connections
 - 108 – Operating Indicators - New Connections
 - 109 – Operating Indicators - Average Monthly Usage
 - 110 – Capital Asset Statistics

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INTRODUCTORY SECTION



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November 26, 2007

The Board of Directors,
Irvine Ranch Water District:

Management of the Irvine Ranch Water District (IRWD or the District) has prepared a Comprehensive Annual Financial Report of IRWD for the fiscal year ended June 30, 2007. This document, which contains a complete set of basic financial statements, is presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. State law requires that all special-purpose local governments publish these basic financial statements within six months of the close of the agency's fiscal year.

This report contains management's representations concerning the finances of the District. Management assumes full responsibility for the completeness and reliability of the information contained in this report. To provide a reasonable basis for making these representations, IRWD management has established a comprehensive framework of internal controls. These controls are designed to protect the District's assets from loss, theft, or misuse, and to ensure sufficiently reliable information for the preparation of the District's basic financial statements in conformity with GAAP. The District's internal controls have been designed to provide appropriate assurance that the basic financial statements will be free from material misstatement. As management, we assert that this financial report is complete and reliable in all material respects.

The District's basic financial statements have been audited by Mayer Hoffman McCann, L.P., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the basic financial statements of the District for the fiscal year ended June 30, 2007 were free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. The independent auditor rendered an unqualified opinion that the District's basic financial statements for the fiscal year ended June 30, 2007 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

A profile of the District is presented in this Introductory Section. In the Financial Section, Management's Discussion and Analysis (MD&A) immediately follows the independent auditor's report and provides an overview and analysis of the basic financial statements. This letter of transmittal and introduction is designed to complement the MD&A and should be read in conjunction with it.

Profile of Irvine Ranch Water District

Overview

Irvine Ranch Water District was established in 1961 as a California Water District under the provisions of the California Water Code. As a special district, IRWD focuses on four primary services - providing potable water, collecting and treating wastewater, producing and distributing recycled and other non-potable water, and implementing urban runoff source control and treatment programs.

The District serves a 178 square mile area, which includes all of the City of Irvine and portions of the cities of Tustin, Newport Beach, Costa Mesa, Orange and Lake Forest, as well as certain unincorporated areas of Orange County, including those canyon areas added to the District as part of the District's consolidation with Santiago County Water District effective July 1, 2006. Extending from the Pacific Coast to the foothills, the District's region is semi-arid with a mild climate and an average annual rainfall of approximately 12 inches. The total estimated population served is 330,000 through approximately 94,000 water and 88,000 sewer service connections. The number of service connections has increased by 73% over the last ten years.



The District has been successful in providing its core services with efficiency and responsiveness to its customers by focusing on the following areas:

- **Organizational Strength** – having professional staff work in close collaboration with the Board of Directors to exceed the expectations of our customers.
- **Operational Reliability** – having multiple sources of water supply and various wastewater treatment alternatives to ensure reliable services.
- **Long-Term Financial Planning** – ensuring sufficient funds are available to construct, operate, and replace facilities, while maintaining stable rates now and in the future.

Our People

IRWD is an independent public agency governed by a five-member, publicly elected Board of Directors. The members of the Board each have varied professional backgrounds which, coupled with an average tenure for the Board members of approximately 19 years, has resulted in effective governance. The District has consistently been on the leading edge of new initiatives in resource management such as water recycling, urban runoff management and water conservation, and in financial management by implementing practices such as variable rate debt financing and long-term infrastructure replacement program development and funding.

The District employs 303 professional staff members who are responsible for daily operations and implementing short and long-term strategic objectives set forth by the

Board. The District actively promotes the training and education of employees to increase effectiveness and retention. The average tenure of the employees is approximately 13 years. An aggressive succession planning program at all levels of the organization has been developed to ensure long-term workforce stability.

The Board and District employees take an active role in state and regional trade associations including the Association of California Water Agencies, the California Association of Sewer Agencies, and the California Special District Association. The District actively monitors and works to influence legislation and regulatory actions potentially affecting IRWD's operations and strategic planning. The Board of Directors is frequently engaged and takes active positions on relevant pending legislation.

Our Services

The District is functionally organized into four core service areas:

Drinking or "Potable" Water System

For many years, the District received all of its drinking water from imported sources. To minimize its dependency on imported water, in 1979 the District began to develop a series of local wells known as the Dyer Road Wellfield that pump high quality groundwater from the Orange County Groundwater Basin. In addition, the District operates wells in the Lake Forest area, which is outside of the main groundwater basin boundaries. In FY 2006-07, the largest component of the District's water supply was local groundwater, which accounted for 40% of the total supply (the chart on page 4 provides information on all the District's water sources in FY 2006-07). Groundwater typically is less expensive because it does not have to be transported over hundreds of miles into Southern California and subsequently treated. Groundwater is considered more reliable because it is available locally, and does not rely upon statewide transmis-

sion from its source to the IRWD service area.

The District purchased 36% of its water supply in FY 2006-07 from the Metropolitan Water District, the region's wholesale water supplier. This water is imported from the Colorado River, which is transported 242 miles through deserts and over mountain ranges to Southern California, and from the Delta, which is transported 300 miles from Northern California.

Recycled Water System

The District's philosophy is that water is too valuable to be used just once, and that by treating wastewater to provide water for irrigation and industrial purposes, the District reduces its reliance on more expensive imported water. Wastewater from the community is collected and treated to State Health Department standards at the

Michelson Water Reclamation Plant and the Los Alisos Water Reclamation Plant, which have the combined capacity to produce over 20 million gallons of recycled water per day. In FY 2006-07, recycled water accounted for approximately 17% of the District's total water supply. Approximately 80% of all business and community landscaping (parks, school grounds, golf courses, street medians, etc.) in the District's service area is irrigated with recycled water. The District also provides recycled water for various industrial and commercial uses. IRWD's ultimate goal is to have recycled water as 25% of its total water supply. This increase in recycled water will also provide a substantial portion of the water needed to supply future growth and redevelopment in the District's service area.

The District operates a number of wells and reservoirs that collect local water for non-potable uses, including Irvine Lake, a 25,000 acre-feet reservoir which receives runoff water (native water) from the Santiago Creek watershed. This water is used primarily in the foothills area of the District for agricultural and other irrigation purposes, and supplements the recycled water system during peak demand periods. In addition, the District has 3,000 acre feet of recycled water storage capacity in the San Joaquin Reservoir and is currently evaluating additional recycled water storage projects at Peters Canyon and Siphon Canyon Reservoirs.

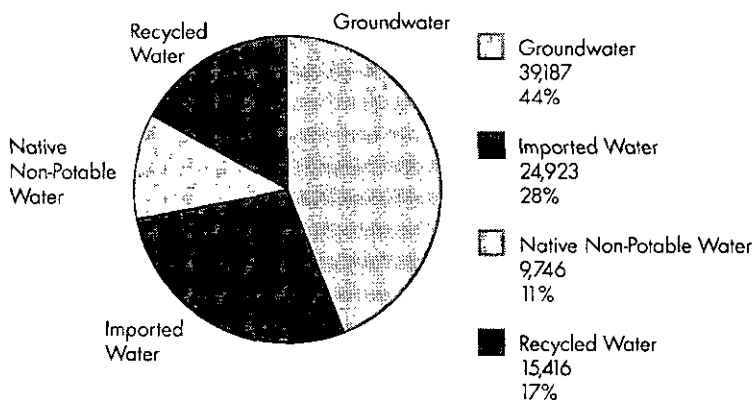
Wastewater Collection and Treatment System

The District has an extensive network of gravity sewers, force mains, wastewater lift stations, and siphons that convey wastewater to two treatment facilities. In FY 2006-07, the District treated approximately 56% of its wastewater, while the remainder of the wastewater collected by the District is diverted to the Orange County Sanitation District treatment facilities. In the future, expansion of the District's wastewater treatment capabilities will serve the growing population within the District, as well as provide additional treatment capacity for the existing District. This expansion is discussed in more detail in the Major Initiatives section of this document.

Urban Runoff Source Control and Treatment System

IRWD is statutorily authorized to control and treat urban runoff, and conducts various projects and programs as part of an effort to protect the quality of water within the San Diego Creek watershed. In the early 1990s, the District voluntarily reconstructed wetlands at the San Joaquin Marsh and Wildlife Sanctuary where natural biological processes remove a substantial amount of the pollutant load from San Diego Creek before it reaches environmentally sensitive Upper Newport Bay. In light of this success, the District obtained special legislation allowing it to add urban runoff treatment to its services, and will finance, construct and operate a regional urban runoff treatment project known as the Natural Treatment System. The Natural Treatment System consists of 31 wetlands treatment sites located throughout the District's service area. The District has various mechanisms in place to fund the operation of this system, and is working with federal and state legislators to procure additional funding to offset capital expenditures. The first three Natural Treatment System sites became operational in 2007. An additional eight facilities will be on line in 2008.

Water Sources, in Acre Feet
FY 2006-07



Our Financial Plan

The District's operating budget for FY 2006-07 was \$88.7 million; the FY 2007-08 budget increased by 6.83% to \$94.8 million.

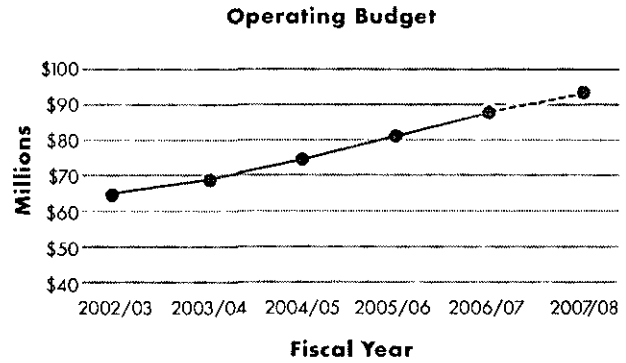
In addition to the operating budget, the District has a capital budget based upon new and replacement infrastructure needs. A \$130 million capital budget for FY 2007-08 was adopted by the Board, although many of the capital budget projects extend beyond just one fiscal year. The adopted capital budget includes more than 500 active and planned projects with expenditures totaling more than \$603 million over the next 10 years.

As shown by the chart to the right, nearly all of the District's operating revenue comes from urban uses: residential, commercial/industrial, landscape irrigation, and public authority customers.

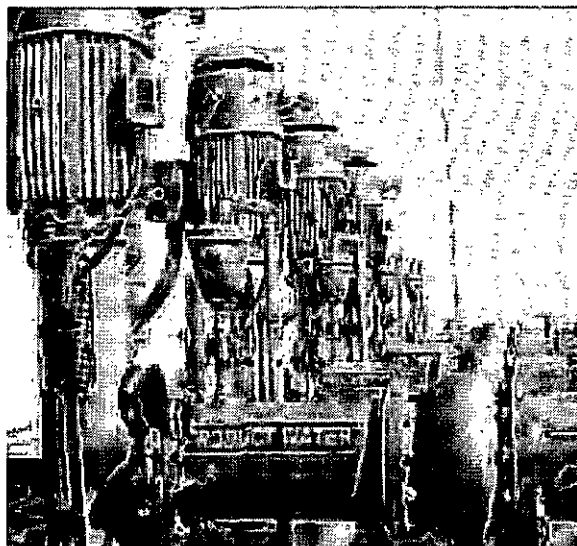
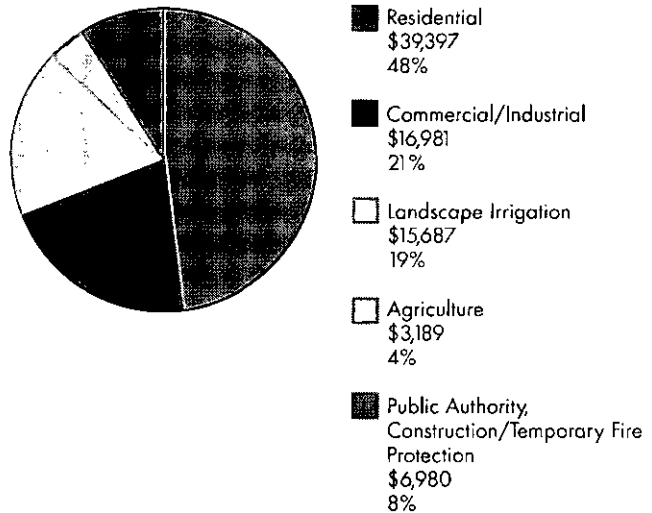
Our User Rates & Charges

To ensure equity among customers, the District separates the cost of constructing water and sewer infrastructure from the cost of daily operations and maintenance. The majority of infrastructure costs are financed with general obligation bonds, which are repaid through a combination of property taxes and connection fees. Operation and maintenance costs are funded by monthly user rates and charges.

The District allocates capital costs throughout its service area through the use of water and sewer improvement districts, for which general obligation bond authorization is obtained and used as needed to fund capital projects. Ad valorem property tax rates are set annually by the District, as are connection fees to be paid by property developers and landowners. The District's historic and ongoing practice has been to allocate the cost of infrastructure evenly between the developer/landowners and the ultimate property owners who benefit from the water and sewer infrastructure.



Customer Base: FY 2006-07
Water & Sewer Operating Revenue
(in thousands)



Water Rates

The District's rate structure for water use is separated into a commodity charge component and a service charge component. The commodity charge reflects the melded cost of the District's water supplies while the service charge funds the remaining operational expenses of the District.

The commodity charge is a five-tiered rate structure based on an allocation of water that promotes conservation. A basic use allocation is established for each customer account that provides a reasonable amount of water

for the customer's needs and property characteristics, giving consideration to factors such as number of occupants, type or classification of use, size of lot or irrigated area, and evapotranspiration rate for the billing period, and other consistently applied criteria. Water customers in the first two tiers pay rates that are the lowest in Orange County; approximately 85% of the District's customers keep their water usage in the first two tiers. The chart below illustrates the five-tier structure.

FY 2005-06 Residential Rate Structure - Potable Water (Commodity Charge)

Tier	Percent of Estimated Customer Need	Base Rate	Cost per ccf*
Low Volume	0 - 40%	75% of Base Rate	\$0.75
Base Rate	41 - 100%	Base Rate	\$0.91
Inefficient	101 - 150%	200% of Base Rate	\$1.82
Excessive	151 - 200%	400% of Base Rate	\$3.64
Wasteful	201%+	800% of Base Rate	\$7.28

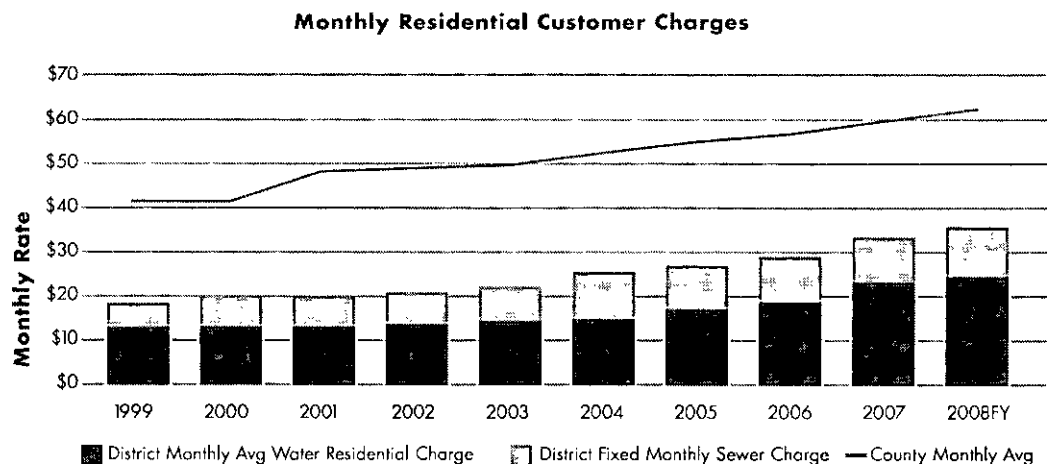
*One ccf (100 cubic feet) = 748 gallons

Sewer Rates

The District's sewer rates are also the lowest in Orange County with a monthly service charge of \$13.05 in FY 2006-07 for a typical residential customer that covers collection and treatment of this sewage. This monthly service charge also includes a user replacement component of \$2.65 per month, which is intended to fund the existing users' portion of replacement projects. This component can grow each year at a rate established by the Board and minimize potential "rate shock" for future capital needs.

Historic Rate Trends

While the District enjoyed a prolonged period of relative rate stability from the mid-1980s to the mid-1990s, the District raised rates in each of the last five years due largely to increased costs for wholesale supplies and services for both water and sewer. The following chart reflects the annual "base rate" charge for an average customer's water and sewer service.



The District has completed four consolidations over the last ten years -

Santa Ana Heights Mutual Water Company in 1997, Carpenter Irrigation District in 2000, Los Alisos Water District in 2001, and effective July 1, 2006, Santiago County Water District, resulting in an approximately 20% increase to the District's customer base. The District's most recent consolidation with Santiago County Water District added an additional 700 customers and more than 45 square miles to the District, as well as a large undeveloped area expected to be developed over the next decade.

The integrated services at the District allow for reduced overhead and administrative costs and lower rates and charges to the customers of the consolidated District. When considering consolidation requests, the District looks for increased efficiencies through economies of scale and mutual benefits from combined expertise and resources.

Districts consolidating with IRWD buy-in to the District's existing infrastructure and receive the benefit of lower rates, enhanced reliability and increased services.



Factors Affecting Financial Condition

The information presented in the Financial Section is perhaps best understood in the context of the economic environment in which the District operates, which is discussed below.

Local Economy

Orange County is the second most populous county in California with over 3.1 million residents and a varied economy in which no single industry is considered dominant. With a location central to Orange County, the District's service area is the home to numerous corporate headquarters such as Taco Bell Corporation, Allergan Inc., Oakley and Broadcom Corporation. The District is also home to various educational institutions, including University of California Irvine, Concordia University, two community colleges, and other colleges and universities with satellite campuses.

During FY 2006-07, the District continued to expand its operating facilities to accommodate more than 4,700 new service connections constructed within District boundaries. This rate of growth is expected to continue as land including the Northern Sphere, East Orange and property from two de-commissioned military bases is developed. Continued growth is also expected with redevelopment of commercial properties in the Irvine Business Complex.

The assessed value of land in the District's service area has more than tripled in the last decade from \$7.8 billion in 1996 to more than \$31.4 billion in 2007, indicating local economic strength.

The State of California's financial condition impacted local governments such as cities, counties and special districts. In 1992, special districts were subjected to legislation that shifted substantial amounts of property tax revenue to the State. The State took this approach again in response to its budget crisis, taking more than \$9.6 million in local tax revenue from the District during FY 2005-06. The State also took a similar amount of those local tax revenues during FY 2004-05.

In response, the District chose to raise both property taxes and connection fees to offset state revenue losses which had been dedicated to annual debt service payments. The District's local tax revenue returned to normal levels in FY 2006-07.

Financial Planning & Budgeting

Short-Term

The Board of Directors approves operating and capital budgets annually, which project major elements of the forthcoming year's operating and capital plans and allocates required funding accordingly. While the General Manager has limited discretion to transfer appropriations between activities, Board approval is required for any overall increase to or substantial changes in appropriations. Throughout the fiscal year, actual expenditures are compared to account appropriations on a monthly basis. Variances between budget estimates and actual receipts and expenditures are evaluated to regulate financial conditions and ensure the District's financial goals and objectives are being met.

The budget process is further supported by our long-term automated financial models, enabling the Board to make informed decisions on setting rates and charges that ensure the long-term stability of the District.

Long-Term

Meeting the goals of reliable, cost effective long-term water and wastewater service requires substantial planning for both capital improvements and changing operating conditions. The District's Capital Improvement Program anticipates the need for expanded treatment facilities as well as replacement of existing facilities. The District staff identifies future infrastructure requirements in advance of needs to ensure that the necessary funding for those projects is in place.

The District regularly updates its water and wastewater master plans using computer modeling that factors in such variables as future development, construction costs, growth rates, inflation, redevelopment, and other items. The District's master plans contemplate the future demands and construction needs for water and sewer treatment facilities. Diversification of the District's water supply and wastewater treatment options are major objectives of the District's master plans. Those objectives are discussed in more detail in the Major Initiatives section of this introduction.

The District has a long history of planning for the replacement of aging water and sewer infrastructure. Recognizing that infrastructure replacement is both inevitable and costly, the District established an Infrastructure Replacement Fund in 1977 to provide partial funding for replacing and refurbishing various components of the water and sewer systems as they reached the end of their useful life. The objective of the fund is to help moderate the financial impact on future user rates attributable to varying expenditures associated with replacing capital facilities.

The original funding source for the Replacement Fund was a fixed component of water and sewer rates. User rate contributions were discontinued in 1992 after providing approximately \$25 million to the Replacement Fund over a 15 year period. Since then, it has been the objective of the Replacement Fund to fund 30% of future infrastructure replacement costs. After assessing the District's long-term replacement funding needs, the Board voted to add \$2.65 to the sewer monthly fixed charge for FY 2006-07. These funding needs are assessed annually using our long-term financial planning models and the Board will consider the monthly fixed charge requirements on an annual basis. For FY 2007-08, the user replacement fee added to the monthly sewer fixed charge is \$3.05.

Real Property Investments

As a means to match its long-term responsibility to replace water and sewer facilities when they reach the end of their useful lives with long-term funding mechanisms, the District obtained legislative authority from the State to invest a portion of its capital facilities replacement fund in real property located in Orange County.

At this time, the District has an interest in three properties with a book value of \$38.9 million and a weighted average return (on original cost) for FY 2006-07 of 12.3%.

Revenues from the District's real estate investments are retained within the Replacement Fund.

In 1996, the District engaged an independent consultant to assist in developing a replacement fund model that would match projected water and sewer infrastructure replacement needs to future funding requirements. General funding goals were refined and future replacement costs were projected annually for the next 50 years. This replacement model is updated every three to five years, and was most recently updated in 2005. An effort was completed in FY 2006-07 to update the replacement fund model and integrate the results into a broader cash flow model, or Enterprise Model, which considers both capital and operating expenses. This refinement will enable staff and the Board to project future user rate requirements necessary to meet both new and replacement capital needs as well as ongoing operation and maintenance costs.

The District believes its approach to infrastructure replacement and funding is among the best in the industry and illustrates the District's commitment to financial stability and protection of customers from unnecessary financial impacts.

Cash Management Policies and Practices

The District is regulated by State law (primarily California Government Code Section 53600, et seq.) as to the types of fixed-income securities in which it can invest cash assets. In addition, the Board of Directors annually adopts an investment policy that is generally more restrictive than the State codes. The District's standard practice is to maintain an appropriate balance between safety, liquidity and yield of investments while meeting required expenditures. This balance must be upheld in conformance with all applicable State laws, the District's investment policy, and prudent cash management principles.

For FY 2006-07, the District's fixed-income investment portfolio consisted primarily of short-term securities with an average maturity of less than 12 months. These securities included U.S. government agency notes, the

State-managed Local Agency Investment Fund, local government bonds, and a mutual fund of U.S. treasury securities. The annual return on these fixed-income investments was approximately 4.9%. In addition, the District entered into \$280 million of fixed receiver interest rate swaps during the FY 2003-04 to better manage the fixed-income portfolio in low interest rate environments. In FY 2006-07, the District's net cash disbursement and accrual was approximately \$1.4 million from these interest rate swap transactions.

At June 30, 2007, the District's cash assets totaled approximately \$180 million. These cash balances are allocated to various restricted funds including the District's Replacement Fund, New Capital Fund, Bond Reserve, Construction, Debt Service and others.



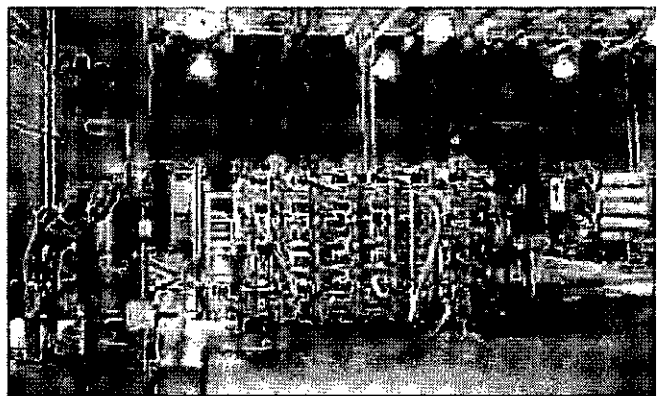
Debt Management Policies and Practices

The District has strived to minimize the cost of its long-term debt. In the early-1980's, the District obtained State legislation that allowed for the use of variable rate debt to help achieve this goal.

The District largely has used a combination of variable rate General Obligation (G.O.) bonds and Certificates of Participation (COPs) to fund its capital facilities. As of June 30, 2007, there were 12 outstanding general obligation bond issues with a balance of \$201.6 million and three outstanding COPs issues with a balance of \$111.6 million. The District has secured direct pay letters of credit and insurance to enhance its variable rate debt. The District's average cost of debt for FY 2006-07 was 2.77%.

Under California law, all of the G.O. bonds are secured by the District's ability to levy ad valorem property taxes in the applicable improvement districts to pay debt service. Although the District has elected to use a combination of ad valorem property taxes and other legally available funds to pay debt service, the legal authority exists to fully fund G.O. bond debt service through such ad valorem taxes. The COPs issues are secured by certain revenues of the overall District, predominantly user rates. The District is required under some of its debt covenants to collect revenues which will be at least sufficient to yield net revenues equal to 125% of senior debt service payable during the fiscal year.

Since all of the District's outstanding debt is in a variable rate mode, the Board of Directors has taken certain actions to manage and mitigate interest rate risk. First, the Board adopted a policy to maintain investment assets covering at least 75% of the variable rate debt. In addition, in FY 2003-04, the District began an interest rate swap program under which \$130 million notional amount of LIBOR-based fixed payer swaps were executed. These interest rate swaps have allowed the District to limit the risk exposure on approximately \$194 million*



(or 62%) of its variable rate debt to 4.01%. (*Assumes a historical ratio for tax-exempt (BMA/SIFMA) versus 1-month LIBOR of 67%.)

In 2002, the District sought and received underlying ratings on its 2002 series COPs. Ratings of "AA+" from Fitch, an "Aa2" rating from Moody's and an "AA" rating from Standard and Poor's were received and have been maintained.

Risk Management

The District utilizes a combination of self-insurance and third party liability insurance to minimize loss exposures from property, third-party liability claims and workers compensation claims. The District self-insures the first \$100,000 per occurrence for third-party liability claims and \$125,000 per occurrence for workers compensation

claims. Various control techniques used to minimize loss include, but are not limited to, routine employee safety meetings and training sessions, use of uniform language in contracts designed to limit or prevent liability exposure, and development of emergency plans, including a business continuation plan.

Major Initiatives

The District's major initiatives during FY 2006-07 included the continuing programs to expand water supplies, as well as expanding wastewater treatment capacity and diverting wastewater flows, upgrading the District's SCADA control systems and the continuing implementation of the Water Conservation Program.

Water Supply Reliability

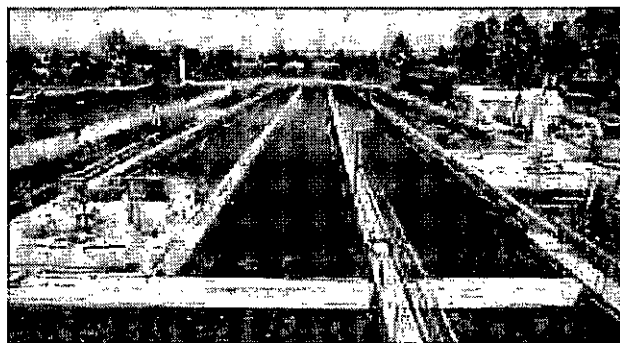
Groundwater Program

The District's Water Resources Master Plan for a reliable water supply mix includes developing sufficient groundwater production capacity to pump to the Basin Production Percentage (BPP) set by the Orange County Water District (OCWD). IRWD estimates that by 2012, the District will require between 13,000 and 36,000 acre-feet per year (AFY) of additional groundwater, depending upon certain external factors. Currently, the District has the ability to produce approximately 28,000 AFY of clear groundwater from the Dyer Road Well Field. IRWD also produces groundwater that requires treatment at the Deep Aquifer Treatment System (DATS) and The Irvine Desalter Project (IDP) systems at a combined total production of 13,000 AFY. In addition, IRWD is looking to expand its groundwater production facilities, and is currently evaluating potential wellsites in Irvine, Lake Forest, Tustin, and Anaheim.

Irvine Desalter Project

The Irvine Desalter Project is a groundwater development project that was constructed by the District in cooperation with the Orange County Water District, the agency responsible for managing the Orange County Groundwater Basin. Construction of the wellhead facilities, connecting pipelines, and treatment facilities was completed in 2006, and the facilities were brought on-line in early 2007.

The Irvine Desalter Project consists of two components. The first component, a potable water wellfield, pipelines and purification plant, treats local groundwater to remove



salts and nitrates caused by the natural geology and past agricultural use. The water is treated to drinking water standards and provides a new source of local drinking water for the District's customers. This water treatment process utilizes reverse osmosis (widely used in the bottled water industry) and disinfection. This component of the project will provide 5,100 acre-feet of drinking water per year for the next 50 years, enough for about 25,000 to 30,000 people.

The second component of the Irvine Desalter Project is treating a plume of contaminated groundwater coming from the now-closed El Toro Marine Corps Air Station. This separate treatment system removes volatile organic compounds from solvent degreasers previously used on the military base. The contaminants are removed using air stripping and activated carbon. The treated water is used in the District's recycled water system and is expected to supply 3,900 acre feet of recycled water per year. The United States Department of the Navy is compensating the District for this component of the project as part of the base closure plan. This compensation will continue until the plume of contaminated groundwater is cleaned up.

Water Banking

In addition to developing the local groundwater system, the District has further diversified its water supply portfolio by participating in water banking arrangements in Kern County, California. The purpose of developing water storage facilities is to capture water during wet hydrologic periods for use during dry periods. Because of reduced environmental impacts and costs, water “banking” – storing surplus water in regional aquifers for later use – is becoming more common as an effective means to address long-term water storage needs.

Although Southern California has substantial groundwater resources, management and operation of these groundwater basins are typically governed by restrictive legal and jurisdictional requirements. Consequently, opportunities for groundwater banking programs in Southern California are limited. In contrast, extensive groundwater basins in other areas of the State are governed under basin management strategies that allow storage of water for outside entities. There are opportunities for partnerships between urban water districts with financial resources and the need for storage, and agricultural districts that overlie and have jurisdictional authority over these basins. Some of these urban-agricultural partnerships have been developed in Kern County.

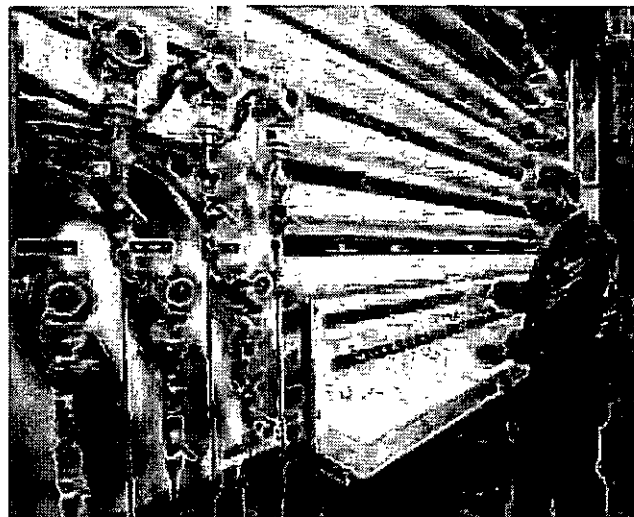
To further the District’s groundwater banking initiatives, the District purchased high-quality groundwater recharge land that overlies the regional Kern County groundwater aquifer, and applies water to constructed recharge ponds over a portion of the property as part of an interim recharge project with Rosedale Rio Bravo Water Storage District. IRWD has executed an agreement with Rosedale to participate in a long-term water banking program.

The District’s purchase of the recharge land and participation in a water banking program in the Central Valley are intended to further

diversify our water supply sources, thereby improving water supply reliability. Unlike other existing Kern County water banking arrangements, the District’s partnership program will provide long-term equity ownership of water banking capacity rather than typical contract or lease arrangements.

Baker Treatment Plant

During the current fiscal year, the District participated with neighboring agencies in the Baker Pipeline Regional Water Treatment Facility Feasibility study and is pilot-testing the microfiltration/ultraviolet treatment of raw water transported by the Baker Pipeline from Metropolitan Water District of Southern California’s Santiago Lateral and District’s Irvine Lake. The proposed facility will treat up to 25 million gallons per day of raw water to drinking water standards. The proposed facility will be owned and operated by the District; partial capacity in the facility will be purchased by other water districts located in Southern Orange County. The project is estimated to cost \$47.8 million to construct. The facility will provide an operational source of supply to the District and, in the event of a short term water shortage emergency, provide regional water reliability to neighboring south Orange County water agencies. The facility will be designed in 2008 and construction is expected to be complete in 2010.



Expanded Wastewater Treatment Options and System Reliability

IRWD is continuing its program to increase the reliability of the wastewater collection system by diversifying treatment and disposal options, and increasing the redundancy and reliability of critical wastewater conveyance facilities. The goals of the program are to collect and dispose of wastewater in the most cost effective method available, create a reliable reclaimed water supply for irrigation and industrial uses, and minimize environmental impacts and risks.

Wastewater from the District is treated at three locations: the Michelson Water Reclamation Plant, the Los Alisos Water Reclamation Plant, and at Orange County Sanitation District. The District owns and operates the Michelson and Los Alisos treatment facilities, and funds capacity in the Orange County Sanitation District based on its tributary flows. The District is working on strategic capital facilities to optimize wastewater treatment capability, improve operational efficiencies, reduce disposal costs, support planned maintenance, and minimize the impacts of unexpected emergencies. Examples of these efforts include the construction of the Harvard Avenue Trunk Sewer (HATS) diversion project which is expected to be completed during FY 2007-08. The cost of the project is expected to be approximately \$8 million dollars and will save the District an average of \$4 million per year over the following five years.

To further improve operational flexibility, the construction of additional diversion structures, pipelines, and the expansion of treatment capacity will have to be completed. The two plants operated by IRWD currently have the collective capacity of 25.5 million gallons per day (mgd). Ultimately,

the planned capacity for these treatment facilities will be approximately 40.5 mgd. Expanding existing infrastructure for wastewater treatment has two primary benefits including:

- Increased recycled water production and utilization, and
- Decreased exposure to external treatment costs and operational constraints.

Initial planning studies have identified a \$125 million capital program for wastewater treatment over the next 10 years to achieve these goals. This includes the upgrades to IRWD treatment plants as mentioned above and also adding two new seasonal storage reservoirs to the recycled water system to improve treatment and distribution efficiencies. It is estimated that these projects will save the District an average of \$8 million per year in capital and operating cost for the next 30 years.

Developing Additional Reclaimed Water Seasonal Storage

The District is evaluating the potential to incorporate the existing Peters Canyon Reservoir and Siphon Reservoir into its recycled water system to better utilize available recycled water supplies. The District is also evaluating the feasibility of converting the Irvine Lake Pipeline (ILP) downstream of Peters Canyon to reclaimed water conveyance facility. The use of ILP as a recycled water line could provide a means to link Peters Canyon, Rattlesnake, and Siphon reservoirs and present potential cost savings in required conveyance facilities. The District is currently evaluating the cost-effectiveness of such projects and expects to complete this evaluation by FY 2008-09.

Expanded SCADA Control Systems

In 2003, the District developed a Master Plan for its System Control and Data Acquisition (SCADA) systems, which provide the District's Operations Staff with real-time data on meter readings and the status of equipment and reservoir levels. This data is compiled and formatted by the SCADA systems in order to enable the District's Operations Staff to make appropri-

ate decisions about the water and wastewater systems operations. The District is currently working on a Water Operations SCADA system replacement project, which, when fully implemented, will increase the efficiency and reliability of the District's domestic water, recycled water, and wastewater systems.

Water Conservation Program Implementation

The District strives to be a leader in the innovation and implementation of conservation measures by promoting the most efficient use of water both on a per capita and per acre basis. IRWD was a leader in the use of recycled water starting in the late 1960s and presently serve over 3,600 sites with more than 15,000 acre feet of recycled water annually – more than 15% of the District's total water supply annually. The District's allocation-based rate structure, implemented in 1991, was carefully designed to promote the efficient use of water by providing customers pricing signals related to over-use of water. This structure is recognized in the industry as a model for other agencies to emulate.

The District's Water Conservation Business Plan addresses not only environmental considerations, but also addresses the considerable positive financial benefits of water conservation for the District and its customers. Specifically:

- As demands for water increase, the unit cost of water tends to increase – a cost which is passed on to customers. This is important because imported water costs the District more than other sources of water.
- Conservation facilitates the storage of water in reservoirs and groundwater basins for use during dry periods when water supplies are more scarce.

- Reducing urban runoff that is typically the result of “over-watering” controls water quality degradation from fertilizers, pesticides and animal waste, in creeks, rivers and oceans.
- Reducing water demands also reduces energy demands on electricity, which is needed to convey water.
- Reduced water use indoors results in reduced wastewater generation and attendant treatment costs.

The basic tenets of the Water Conservation Business Plan include policy leadership, rate structure improvements, focused customer interface, education and outreach, research and technology advances, and tactical incentives. Staff updates the Board on the effectiveness of the Plan and funding needs on at least an annual basis.

During the past fiscal year, the District provided financial incentives to residential and business customers to install water efficient devices such as high-efficiency clothes washers, toilets and irrigation equipment. In FY 2006-07, 2,539 residential devices and 1,231 commercial devices were installed. Lifetime water savings associated with those devices are estimated to be about 1,140 acre-feet. Since the program's inception in 2005, over 6,300 devices have been installed with lifetime water savings for all measures estimated at 2,085 acre-feet.

Awards and Acknowledgments

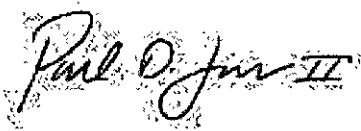
The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Irvine Ranch Water District for its comprehensive annual financial report (CAFR) for the fiscal years ending June 30, 2004, June 30, 2005 and June 30, 2006. In order to be awarded a Certificate of Achievement, IRWD was required to publish an easily readable and efficiently organized CAFR that satisfied both GAAP and applicable legal requirements.

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

Staff would like to acknowledge the IRWD Board of Directors for their unfailing support and for maintaining the highest standards of professionalism in the management of the District's operations and finances. We would also like to thank the dedicated employees of the District for their commitment to providing high quality service to the District's customers. The preparation of this report would not have been possible without the efficient and dedicated service of the entire staff of the Finance Department.

We wish to express our appreciation to all staff that assisted and contributed to the preparation of this report.

Respectfully submitted,



Paul D. Jones, II
General Manager



Deborah Cherney
Director of Finance

Irvine Ranch Water District List of Principal Officials

Board of Directors:

President and Director

Vice President and Director

Director

Director

Director

Douglas J. Reinhart

Darryl G. Miller

Mary Aileen Matheis

Peer A. Swan

John B. Withers

Executive Management:

General Manager

Assistant General Manager

Director of Administrative Services

Director of Engineering and Planning

Director of Finance

Director of Human Resources

Director of Public Affairs

Director of Wastewater Operations

Director of Water Operations

Director of Water Quality

Director (Acting) of Water Resources and
Environmental Quality

Treasurer

Paul D. Jones II

Paul Cook

Tony Mossbarger

Gregory Heiertz

Deborah Cherney

Janet Wells

Beth Beeman

Wayne Posey

Carl Ballard

John Hills

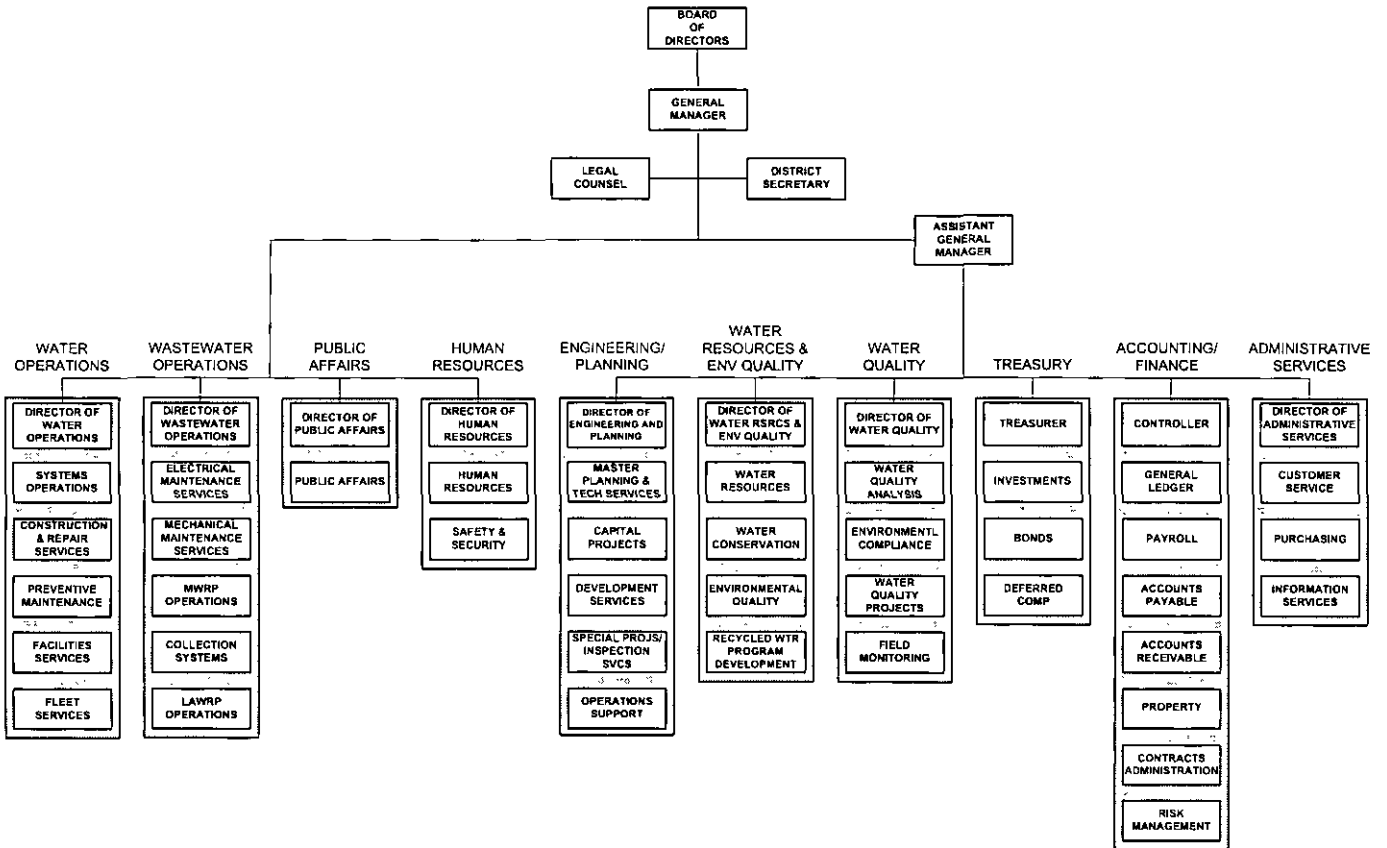
Gregory Heiertz

Terry Loomis

Irvine Ranch Water District Organizational Chart

(By Function)

As of June 30, 2007



Certificate of Achievement for Excellence in Financial Reporting

Presented to:

Irvine Ranch Water District
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2006

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



Oliver S. Cox

President

Jeffrey R. Enow

Executive Director

Financial Section

Irvine Ranch Water District
Financial Statements
Fiscal Year Ended June 30, 2007



Mayer Hoffman McCann P.C.
An Independent CPA Firm
Central Government Services Division
2301 Dupont Drive, Suite 200
Irvine, California 92612
949-474-2020 ph
949-263-5520 fx
www.mhmpc.com

Board of Directors
Irvine Ranch Water District

Independent Auditors' Report

We have audited the accompanying basic financial statements of the Irvine Ranch Water District (District) as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the management of the District. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative data has been derived from the financial statements of the District for the year ended June 30, 2006 and, in our report dated September 1, 2006, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Irvine Ranch Water District as of June 30, 2007, and the changes in financial position and cash flows of the District for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Board of Directors
Irvine Ranch Water District
Page Two

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the Irvine Ranch Water District's basic financial statements. The introductory section, statistical tables and supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Combining Schedules of Net Assets have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 2, 2007 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Mayer Hoffman McLean P.C.

Irvine, California
October 2, 2007

Management's Discussion and Analysis

The following discussion and analysis of the financial performance of the Irvine Ranch Water District (District) provides an overview of the District's financial activities for the Fiscal Year ending June 30, 2007. Please read it in conjunction with the basic financial statements and notes to the basic financial statements, which follow this analysis.

Description of Basic Financial Statements

The basic financial statements of the District consist of the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows. The Statement of Net Assets identifies the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). The Statement of Revenues, Expenses and Changes in Net Assets provides information on the District's operations and can be used to determine whether the District has recovered all of its costs through its operating and non-operating revenues. The Statement of Cash Flows provides information on the District's cash receipts, cash payments and changes in cash resulting from operations, investments and financing activities. The basic financial statements are prepared using the accrual basis of accounting and include notes that explain in more detail some of the information included in the statements.

Condensed Financial Information

A summary of the District's *Statement of Net Assets* follows:

Table 1
Net Assets
(in millions)

	2007	2006
Assets		
Current and other assets	\$ 1,088.9	\$ 1,162.1
Capital assets	1,224.3	1,111.1
Total assets	2,313.2	2,273.2
 Liabilities		
Current and other liabilities	95.3	91.5
Long-term debt outstanding	1,022.1	1,068.8
Total liabilities	1,117.4	1,160.3
 Net Assets		
Invested in capital assets, net of related debt	927.6	791.0
Restricted for water services	229.2	231.2
Restricted for sewer services	39.0	90.6
 Total net assets	 \$ 1,195.8	 \$ 1,112.8

Management's Discussion and Analysis (Continued)

As shown in Table 1, the District's current and other assets decreased \$73.2 million or 6.3 percent primarily due to reductions in cash of \$45.0 million, in the net JPA investments of \$28.1 million, and in other receivables of \$6.0 million. Capital assets increased \$113.2 million or 10.2 percent. The increase in capital assets is comprised of additions to fixed assets net of depreciation of \$108.6 million or 12.4 percent, and reductions from construction in process of \$3.2 million or 1.6 percent. Long-term debt outstanding decreased by \$46.7 million or 4.4 percent due primarily decreases in obligations for the Certificates of Participation and JPA revenue bonds. Net assets at Fiscal Year ending June 30, 2007 increased \$83.0 million to \$1,195.8 million, indicating approximately a 7.5 percent change in the District's overall financial condition.

Summaries of both the District's revenues and expenses extracted from the *Statement of Revenues, Expenses, and Changes in Net Assets* follow:

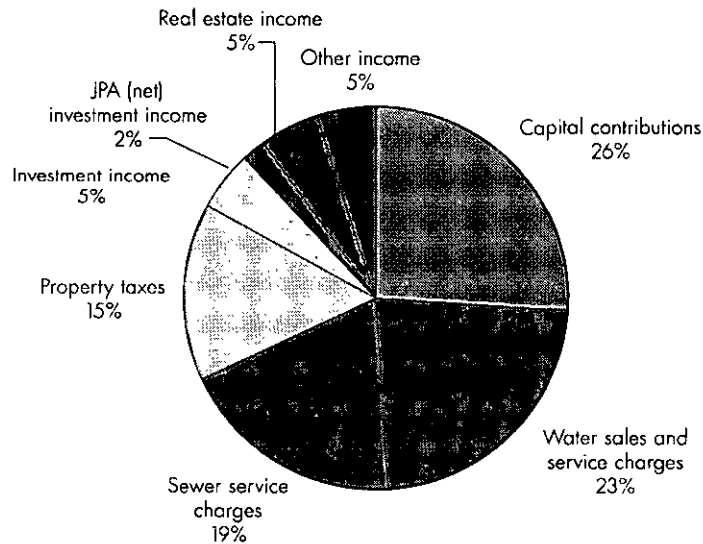
Table 2
Revenues
(in thousands)

	2007	2006
Operating revenues		
Water sales and service charges	\$45,138	\$39,256
Sewer sales and service charges	37,649	29,248
Total operating revenues	82,787	68,504
Non-operating revenues		
Property taxes	30,667	15,237
Investment income	10,768	9,115
Increase (decrease) in fair value of investments	(3,996)	(53,542)
JPA (net) investment income	3,389	3,367
Real estate income	9,483	9,118
Other income	10,457	8,494
Total non-operating revenues (before Capital contributions)	60,768	(8,211)
Capital contributions	52,672	32,525
Total Revenues	\$196,227	\$92,818

As shown in Table 2, operating revenues, comprising 42.8 percent of total revenues, increased by \$14.3 million or 20.8 percent. Operating revenue increases are primarily attributable to a 16.3 percent increase in water and sewer rates for the average residential customer and a 2.7 percent increase in service connections. The chart below illustrates the sources of revenue for the Fiscal Year ending June 30, 2007, excluding the change in the fair market value of investments.

Management's Discussion and Analysis (Continued)

Sources of Revenue for Fiscal Year Ended June 30, 2007
(excluding change in fair market value of investments)



Net non-operating revenues accounted for 31.0 percent of total revenue, and increased \$69.0 million or 840.1 percent primarily due to an increase of \$15.4 million or 101.3 percent in property tax collections as a result of the end in the State of California's two-year shift of property taxes away from the District, and an increase of \$1.7 million or 18.21 percent in investment income as a result of the increase in the District's yield on investments. Capital contributions accounted for the remaining \$52.7 million or 26.8 percent of total revenues for Fiscal Year 2006-07, comprised of both an increase in connection fees and in donated facilities. An increase of \$4.2 million in connection fees or 23.6 percent, was due in part to a 21.0 percent increase in connection fee rates, and in part due to significant redevelopment in the Irvine Business Complex and former Tustin Air Base. In addition, donated facilities comprised the balance of the increase in capital contributions, totaling \$23.9 million or an increase of 142.5 percent.

Management's Discussion and Analysis (Continued)

Table 3
Expenses
(in thousands)

	2007	2006
Operating expenses before depreciation		
Water		
Water services	\$33,281	\$29,813
General & administrative	10,267	8,625
Customer accounts	1,698	1,572
Sewer		
Sewer services	23,439	18,480
General & administrative	6,328	5,556
Customer accounts	1,131	1,048
Total operating expenses before depreciation	76,144	65,094
Depreciation	28,449	27,135
Total operating expenses	104,593	92,229
Non-operating expenses		
Interest expense	12,762	9,286
Real estate expense	4,562	4,493
Other expenses	883	666
Total non-operating expenses	18,207	14,445
Total expenses	\$122,800	\$106,674

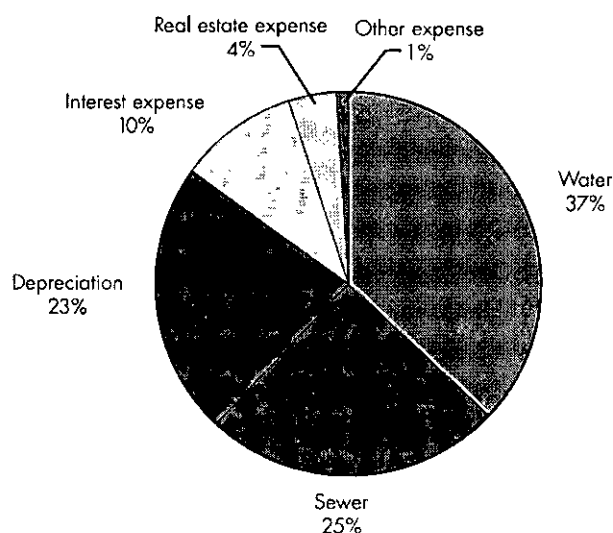
As shown in Table 3, operating expenses before depreciation comprise 61.0 percent of expenses and increased by \$11.1 million or 17 percent. Water expenses increased by \$3.5 million, primarily due to increase water sales as a result of a less than normal precipitation levels. Sewer expenses increased by \$4.9 million primarily due to increases in the cost of water and in materials and supplies, such as energy and chemicals.

Total non-operating expenses reflect an increase in interest expense resulting from the increase of rates on variable rate debt.

Combined operating and non-operating revenues before capital contributions were \$143.6 million, which was \$20.8 million more than combined operating and non-operating expenses.

Management's Discussion and Analysis (Continued)

Functional Expenses for Fiscal Year Ended June 30, 2007



Capital Assets

**Table 4
Capital Assets, Net of Depreciation
(in millions)**

	2007	2006
Waterworks in service	\$628.3	\$563.9
Sewer plant in service	752.4	679.0
Less: accumulated depreciation	(399.0)	(369.8)
Land	42.5	34.6
Construction in progress	200.2	203.4
Total	<u>\$1,224.4</u>	<u>\$1,111.1</u>

Additional information on the District's capital assets can be found in Note 4 of the Notes to the Basic Financial Statements.

Total unexpended construction commitments as of Fiscal Year ending June 30, 2006 were \$50.6 million; \$31.5 million of this is for water facility expenditures and \$19.1 million is for sewer/reclaimed facility expenditures. A list of material construction commitments as of June 30, 2006 can be found in Note 14 of the Notes to the Basic Financial Statements.

Total projects transferred from Construction in Progress to Capital Assets during Fiscal Year ending June 30, 2007 were \$133.8 million. Among the more significant projects transferred were (in millions):

Irvine Desalter Project	\$46.3
Capacity in Orange County Sanitation District (see Note 14)	\$20.8
MWRP Generators	\$5.3
Marshburn Wash Sewer	\$2.9

Management's Discussion and Analysis (Continued)

University/Campus Sewer Replacement	\$1.7
Zone 3-4 Booster Pump Station	\$1.5
Zone B 36 inch Extension to San Joaquin Reservoir	\$1.4
Shady Canyon Regional Pipelines	\$1.4
El Toro Road Sewer Extension	\$1.2

Total unexpended construction commitments as of Fiscal Year ending June 30, 2007, were \$69.8 million: \$26.8 million of this is for water facility expenditures and \$43.0 million is for sewer/reclaimed facility expenditures. A list of material construction commitments as of June 30, 2007 can be found in Note 14 of the Notes to the Basic Financial Statements.

Outstanding Debt

Shown below, as of June 30, 2007, the District had total debt outstanding of \$1.1 billion, which is a net decrease of \$22.8 million, or 2.1 percent from the prior year. The decrease is partially attributable to a reduction in general obligation bonds of \$23.0 million.

Table 5
Outstanding Debt
(in millions)

	2007	2006
General obligation bonds	\$201.6	\$224.6
Certificates of participation	111.6	114.2
Joint Powers Agency bonds	749.5	772.3
Other long-term debt	11.3	8.5
Total	\$1,074.0	\$1,119.6

Of the \$1.1 billion debt outstanding, \$201.6 million represents general obligation bonds backed by various letters of credit; \$111.6 million represents COPs (\$42.3 million secured by a letter of credit and \$69.3 million secured by District revenue sources and MBIA insurance); \$749.5 million represents Joint Powers Agency bonds outstanding secured by investment contracts; and the remainder of the District's debt totaling \$11.3 million includes other liabilities, notes payable, and state loans.

The District has received the following ratings from the three major rating agencies:

Fitch Ratings:	AA+
Moody's:	Aa2
Standard and Poor's:	AA

Additional information on the District's long-term debt can be found in Note 8 of the Notes to the Basic Financial Statements.

Contacting the District's Financial Management

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

Irvine Ranch Water District
Statement of Net Assets
June 30, 2007
(amounts expressed in thousands)

	2007	2006
ASSETS:		
Current Assets:		
Cash and investments (note 2)	\$ 155,733	200,821
Receivables:		
Customer accounts receivable	5,494	4,084
Interest receivable	2,694	2,509
Joint Powers Agency (JPA) interest receivable	22,831	23,491
Notes receivable, current portion	37	15
Allen-McColloch Pipeline receivable, current (note 7)	496	2,020
Other receivables	3,458	7,936
Total receivables	35,010	40,055
Other Current Assets:		
Inventories	2,304	676
Prepaid items and deposits	1,137	2,892
JPA investment program, current portion (note 2)	23,887	22,124
Total other current assets	27,328	25,692
Total current assets	218,071	266,568
Noncurrent Assets:		
Capital Assets (note 4):		
Waterworks in service	628,263	563,939
Sewer plant in service	752,404	678,972
Less accumulated depreciation	(399,011)	(369,790)
Total capital assets being depreciated, net	981,656	873,121
Land	42,527	34,588
Construction in progress	200,172	203,365
Total capital assets, net	1,224,355	1,111,074
Other Noncurrent Assets:		
Debt service cash and investments (note 2)	22,410	22,462
Unamortized debt issuance expense	2,851	3,106
Notes receivable, net of current portion	354	21
Allen-McColloch Pipeline receivable, net (note 7)	6,819	6,445
JPA investment program, net (note 2)	798,627	826,734
Real estate investments (note 6)	39,716	36,697
Total other noncurrent assets	870,777	895,465
Total noncurrent assets	2,095,132	2,006,539
Total assets	2,313,203	2,273,107

(Continued)

See accompanying notes to the basic financial statements.

Irvine Ranch Water District
Statement of Net Assets
(Continued)

	<u>2007</u>	<u>2006</u>
LIABILITIES AND NET ASSETS:		
Current Liabilities:		
Accounts payable and accrued expenses	24,451	21,225
Customer deposits and advance payments	340	393
Accrued interest:		
JPA revenue bonds	17,225	17,723
Other accrued interest payable	1,434	1,422
Current portion of long-term liabilities (note 8):		
General obligation bonds	19,700	22,985
Certificates of participation	4,100	2,600
JPA revenue bonds	24,551	22,846
Notes payable	377	450
Other liabilities	3,161	1,861
Total current liabilities	<u>95,339</u>	<u>91,505</u>
Long-Term Liabilities (note 8):		
General obligation bonds, net of current portion	181,900	201,600
Certificates of participation, net of current portion	107,500	111,600
JPA revenue bonds, net of current portion	724,962	749,514
Notes payable, net of current portion	5,549	3,268
Other long-term liabilities	2,192	2,821
Total long-term liabilities	<u>1,022,103</u>	<u>1,068,803</u>
Total liabilities	<u>1,117,442</u>	<u>1,160,308</u>
Net Assets (note 11):		
Invested in capital assets, net of related debt	927,640	791,033
Restricted for water services	229,172	231,221
Restricted for sewer services	38,949	90,545
Total net assets	<u><u>\$1,195,761</u></u>	<u><u>1,112,799</u></u>

See accompanying notes to the basic financial statements.

Irvine Ranch Water District
Statement of Revenues, Expenses, and Changes in Net Assets
Fiscal Year ended June 30, 2007
(amounts expressed in thousands)

	2007	2006
Operating revenues:		
Water sales and service charges	\$ 45,138	39,256
Sewer service charges	37,649	29,248
Total operating revenues	82,787	68,504
Operating expenses:		
Water:		
Water services	33,281	29,813
General and administrative	10,267	8,625
Customer accounts	1,698	1,572
Sewer:		
Sewer services	23,439	18,480
General and administrative	6,328	5,556
Customer accounts	1,131	1,048
Depreciation	28,449	27,135
Total operating expenses	104,593	92,229
Operating income (loss)	(21,806)	(23,725)
Nonoperating revenues (expenses):		
Property taxes	30,667	15,237
Investment income	10,768	9,115
Increase (decrease) in fair value of investments	(3,996)	(53,542)
JPA investment income	61,793	63,427
Real estate income	9,483	9,118
Other income	10,457	8,494
Interest expense	(12,762)	(9,286)
JPA interest expense	(58,404)	(60,060)
Real estate expense	(4,562)	(4,493)
Other expenses	(883)	(666)
Total nonoperating revenues (expenses)	42,561	(22,656)
Income (loss) before capital contributions	20,755	(46,381)
Capital contributions:		
Donated facilities	23,947	9,874
Connection fees	22,122	17,903
Other	6,603	4,748
Increase (decrease) in net assets	73,427	(13,856)
Net assets at beginning of year	1,112,799	1,126,655
SCWD net assets at beginning of year (note 17)	9,535	-
Net assets at end of year	\$ 1,195,761	1,112,799

See accompanying notes to the basic financial statements.

Irvine Ranch Water District
Statement of Cash Flows
Year ended June 30, 2007
(amounts expressed in thousands)

	2007	2006
Cash flows from operating activities:		
Cash received from customers and users	\$ 100,321	75,144
Cash paid to suppliers of goods and services	(41,882)	(29,589)
Cash paid to employees for services	(31,467)	(27,788)
Net cash provided by (used for) operating activities	26,972	17,767
Cash flows from noncapital financing activities:		
Property tax receipts	30,667	15,237
Net cash provided by noncapital financing	30,667	15,237
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(110,159)	(110,886)
Proceeds from issuance of long-term debt	-	60,000
Principal payments on long-term debt	(47,808)	(49,192)
Interest payments on long-term debt	(72,763)	(70,693)
Developer connection fees and related receipts	28,725	22,651
Net cash provided by (used for) capital and related financing activities	(202,005)	(148,120)
Cash flows from investing activities:		
Investment earnings	73,036	72,652
Investment earnings in real estate	1,902	1,492
Proceeds from maturity of investments	329,577	291,835
Purchases of investments	(263,448)	(266,037)
Collections on notes receivable	2,349	2,149
Additions to notes receivable	(409)	-
Net cash provided by (used for) investing activities	143,007	102,091
Net increase (decrease) in cash and cash equivalents	(1,359)	(13,025)
Cash and cash equivalents at beginning of year	16,968	29,993
Cash and cash equivalents at end of year	\$ 15,609	16,968

(Continued)

See accompanying notes to the basic financial statements.

Irvine Ranch Water District
Statement of Cash Flows
(Continued)

	<u>2007</u>	<u>2006</u>
Reconciliation of cash and cash equivalents to amounts reported on the Statement of Net Assets:		
Cash and investments	\$ 155,733	200,821
Debt service cash and investments	<u>22,410</u>	<u>22,462</u>
Subtotal	178,143	223,283
Less long-term government securities	<u>(162,534)</u>	<u>(206,315)</u>
Cash and cash equivalents at end of year	<u>\$ 15,609</u>	<u>16,968</u>
Reconciliation of operating income to net cash provided by (used for) operating activities:		
Operating income (loss)	\$ (21,806)	(23,725)
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:		
Other nonoperating income	10,457	8,494
Other nonoperating expenses	(883)	(666)
Depreciation	28,449	27,135
(Increase) decrease in customer receivables	(1,410)	(107)
(Increase) decrease in other receivables	8,734	(1,676)
(Increase) decrease in inventories	(1,628)	(89)
(Increase) decrease in prepaid expenses and deposits	1,755	(717)
Increase (decrease) in accounts payable and accrued expenses	3,226	9,278
Increase (decrease) in customer deposits and advance payments	(53)	(16)
Increase (decrease) in other liabilities	<u>131</u>	<u>(144)</u>
Net cash provided by (used for) operating activities	<u>\$ 26,972</u>	<u>17,767</u>
Noncash investing, capital and financing activities:		
Contributions of capital assets from developers	\$ 23,947	9,874
Unrealized gain (loss) on investments	<u>(3,996)</u>	<u>(53,542)</u>
Total noncash investing, capital and financing activities	<u>\$ 19,951</u>	<u>(43,668)</u>

See accompanying notes to the basic financial statements.

Irvine Ranch Water District
Notes to the Basic Financial Statements
Fiscal Year Ended June 30, 2007

(1) Summary of Significant Accounting Policies

(a) Reporting Entity

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

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

Planning areas are not formal improvement districts, but are intended to become so if and when development plans are approved within that planning area and future development is expected to take place. Occasionally, planning areas encompass an already fully developed area that was annexed into the overall district and because there is no new development remaining these areas are intended to remain as planning areas. They are not included in regional cost allocations or other forms of cost allocation for new capital facilities needed to meet new or future demand. Equity considerations are addressed when these areas are consolidated into the overall District, and the funding source used to meet these equity considerations has been user rates.

Whereas connection fees and property taxes vary by improvement district based upon, among other considerations, total capital costs, ratio of developed to undeveloped land, and development densities, water and sewer user fees are uniform throughout the District, with the exceptions of the Los Alisos and the Santiago service areas. The Los Alisos and Santiago areas were consolidated into IRWD in 2001 and 2006, respectively, and currently have separate rate structures.

Irvine Ranch Water District
Notes to the Basic Financial Statements
(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

Description of the Reporting Entity

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

Irvine Ranch Water District IDs and PAs:

100/101 & 200/210/211	Overall District Boundary (excluding new annexations)
112/212	El Toro Marine Base
113/213	Tustin Marine Base
120/121 & 220/221	Woodbridge/Irvine
130/230	Irvine Business District/Spectrum
135/235	Los Alisos Area
140/240	Newport Coast/Newport Ridge
150/250	Tustin Ranch/Northern Sphere
151	Carpenter Irrigation Area
153/253	East Orange
154/155	Santiago Canyon(s)
252	Santiago Hills
160/161 & 260/261	Turtle Rock
182/282	Foothill Ranch Residential
184/284	Foothill Ranch Commercial
186/189 & 286/289	Portola Hills Residential
188/288	Portola Hills Commercial
190/290	Shady Canyon/Laguna Laurel

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

The Irvine Ranch Water District Water Service Corporation – In January of 1997, the District formed a 501(c)4 corporation for the purpose of financing and acquiring water, sewer and other public improvements. The Corporation’s transactions are related to participation in the Irvine Ranch Water District Water Service Company, LLC to effect the merger of the Santa Ana Heights Water Company and the issuance of the outstanding 2002 Certificates of Participation. The Corporation’s bylaws mandate that the members of the District’s Board of Directors shall constitute the Corporation’s five-member Board of Directors. The Irvine Ranch Water District Water Service Corporation does not issue separate financial statements.

Irvine Ranch Water District
Notes to the Basic Financial Statements
(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

The Irvine Ranch Water District Water Service Company, LLC (LLC) – LLC was created to effect the merger of the Santa Ana Heights Water Company into the Irvine Ranch Water District. The merger was certified by the State of California on July 20, 1997. The Santa Ana Heights financial data and transactions are included in Improvement District No. 700. The two members of the LLC are the District and the Irvine Ranch Water District Water Service Corporation (described above).

Joint Powers Agency – The Irvine Ranch Water District Joint Powers Agency (JPA) was formed pursuant to a joint powers agreement, dated December 22, 1986, and amended as of January 1, 1988, between the District and the Community Facilities District of the Irvine Ranch Water District. The agreement remains in effect until December 31, 2011 or until all bonds or other indebtedness issued has been retired. The JPA is governed by a Commission consisting of the five members of the Board of Directors of the District. The District selects the management of the JPA, is able to significantly influence operations and has full accountability for fiscal affairs. The JPA's financial data and transactions are included in Improvement Districts No. 300 and 400. The JPA does not issue separate financial statements.

Bardeen Partners, Inc. – In March of 1991, the District formed a 501(c)4 corporation for the purpose of accounting for the financial data and transactions of the District's real estate investments, including the investments in Wood Canyon Villas, Sycamore Canyon Apartments, and Irvine Technology Center. Bardeen Partners is governed by a Board of Directors consisting of the five members of the District's Board of Directors. The District accounts for the Corporation's activities in Improvement Districts No. 800 and 900. Bardeen Partners does not issue separate financial statements.

Irvine Ranch Water District Improvement Corporation – In August of 1986, the District formed a 501(c)4 corporation for the purpose of financing water, sewer and other public improvements. The Corporation's only transactions are related to the debt service payments on the outstanding 1986 Certificates of Participation. Five District Board of Directors are required to be the five members of the Corporation's Board of Directors. The District accounts for the Corporation's activities in several Improvement Districts. The Irvine Ranch Water District Improvement Corporation does not issue separate financial statements.

(b) Basic Financial Statements

The basic financial statements are comprised of the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, the Statement of Cash Flows and the notes to the basic financial statements.

Irvine Ranch Water District
Notes to the Basic Financial Statements
(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

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

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

The District applies all applicable GASB pronouncements in accounting and reporting for proprietary operations as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB's) of the Committee on Accounting Procedure.

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

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

Net assets of the District have been reported as restricted when their use is constrained more narrowly than the reporting unit in which they are reported as a result of state laws governing such use. When both restricted and unrestricted resources are available for use, the District uses unrestricted resources first, then restricted resources as they are needed. For capital expenditures, legally available restricted bond proceeds are used first, then other restricted resources, then unrestricted resources are used if needed.

Irvine Ranch Water District
Notes to the Basic Financial Statements
(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(d) Property Taxes

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

The property tax calendar is as follows:

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

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

(e) Cash and Cash Equivalents

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

(f) Investments

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

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

(g) Real Estate Investments

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

Irvine Ranch Water District
Notes to the Basic Financial Statements
(Continued)

(1) Summary of Significant Accounting Policies. (Continued)

(h) Inventory and Prepaid Items

Inventory includes water purchased in storage and is stated at the original cost on the first in, first out basis. The consumption method is used to account for materials and supplies inventory. Inventory is recorded when purchased, and expensed at the time the inventory is consumed. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

(i) Capital Assets

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

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

Waterworks in service:	
General plant	3 to 40 years
Utility plant	10 to 100 years
Sewer plant in service:	
General plant	3 to 40 years
Utility plant	10 to 86 years

(j) Unamortized Debt Issuance Expense

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

(k) Compensated Absences

It is the District's policy to permit employees to accumulate earned but unused vacation benefits up to certain limits. Earned vacation pay to a maximum of 240 hours (or more with written approval of the General Manager) and 50% of accumulated sick leave up to a maximum of 960 hours may be paid upon termination of employment. Sick leave hours accrue at the rate of one day per month and employees may elect to receive cash for accumulated sick leave for up to 96 hours in excess of the first 40 hours accumulated. All accumulated vacation and vested sick leave pay is recorded as an expense and a liability at the time the benefit is earned.

Irvine Ranch Water District
Notes to the Basic Financial Statements
(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(1) Comparative Financial Statements and Reclassifications

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

(2) Cash and Investments

Cash and investments as of June 30, 2007 are classified in the accompanying financial statements as follows:

Cash and investments	\$ 155,733,269
Debt service cash and investments	22,409,824
JPA investment program, current portion	23,886,595
JPA investment program	<u>798,627,126</u>
Total cash and investments	<u>\$1,000,656,814</u>

Cash and investments as of June 30, 2007 consist of the following:

Cash on hand	\$ 3,300
Deposits with financial institutions	(3,378,308)
Investments	<u>1,004,031,822</u>
Total cash and investments	<u>\$1,000,656,814</u>

Investments Authorized by the California Government Code, the California Water Code, and the District's Investment Policy

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

Irvine Ranch Water District
Notes to the Basic Financial Statements
(Continued)

(2) Cash and Investments, (Continued)

Investments Authorized by the California Government Code, the California Water Code, and the District's Investment Policy (Continued)

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

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

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

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

Investments Authorized by Debt Agreements

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

Authorized Investment Type

U.S. Treasury Obligations
U.S. Agency Securities
Certificates of Deposit
Banker's Acceptances
Commercial Paper
Money Market Mutual Funds
Repurchase Agreements
Investment Contracts

Irvine Ranch Water District
Notes to the Basic Financial Statements
(Continued)

(2) Cash and Investments, (Continued)

Custodial Credit Risk

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

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

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

<u>Investment Type</u>	<u>Amount</u>	<u>Remaining Maturity</u>			
		<u>12 Months Or Less</u>	<u>13 to 36 Months</u>	<u>37-60 Months</u>	<u>More Than 60 Months</u>
Treasury obligations	\$ 1,543,972	565,237	978,735	-	-
Federal agency securities	162,810,768	162,810,364	404	-	-
Local Agency Investment Fund	13,073,750	13,073,750	-	-	-
Money market funds	4,089,610	4,089,610	-	-	-
JPA cash and investments:					
FNMA	504,850,822	13,039,495	25,748,960	26,229,766	439,832,601
Investment contract	317,662,900	10,847,100	24,259,800	28,148,600	254,407,400
Total	\$ 1,004,031,822	204,425,556	50,987,899	54,378,366	694,240,001

Irvine Ranch Water District
Notes to the Basic Financial Statements
(Continued)

(2) Cash and Investments, (Continued)

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required (where applicable) by the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

<u>Investment Type</u>		<u>Minimum Legal Rating</u>	<u>Rating as of Year End</u>	
			<u>AAA</u>	<u>Not Rated</u>
Treasury obligations	\$ 1,543,972	N/A	1,543,972	-
Federal agency securities*	162,810,768	N/A	29,740,084	133,070,684
Local Agency Investment Fund	13,073,750	N/A	-	13,073,750
Money market funds	4,089,610	A	4,089,610	-
JPA cash and investments:				
FNMA	504,850,822	N/A	504,850,822	-
Investment contract	<u>317,662,900</u>	N/A	<u>-</u>	<u>317,662,900</u>
 Total	 <u>\$ 1,004,031,822</u>		 <u>540,224,488</u>	 <u>463,807,334</u>

*The not-rated federal agency securities consist of discount notes issued by the Federal National Mortgage Association and Federal National Mortgage Credit Corporation. The discount notes are issued without credit ratings specific to individual securities; however, the short-term debt ratings (less than one-year) for both Fannie Mac and Freddie Mac are A-1+ (Standard & Poor's), P-1 (Moody's) and F-1+ (Fitch).

Concentration of Credit Risk

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

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
FNMA	Federal agency securities	\$607,552,704
AIG	Investment contract	317,662,900

The credit rating of AIG at June 30, 2007 is AA. The AIG investment contract is the only investment security in the trust estate of the Taxable Refunding Bond Issue #1 issued by the Irvine Ranch Water District Joint Powers Agency in February 1998. These bonds are secured solely by the trust estate, and there is no recourse to the District for the payment of principal and interest due on the bonds. Furthermore, it is the District's understanding that AIG is the beneficial owner of the bonds of the Taxable Refunding Bond Issue #1.

Irvine Ranch Water District
Notes to the Basic Financial Statements
(Continued)

(2) Cash and Investments, (Continued)

Investment in State Investment Pool

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

(3) Swap Agreements

On September 8, 2003, the District's Board of Directors approved Resolution 2003-36, which established a policy regarding the use of interest rate swap transactions. The policy provides that interest rate swap transactions will be designed to enhance the relationship between risk and return with respect to an investment or a program of investments entered into by the District; and/or to reduce the amount or duration of payment, rate, spread, or similar risk; and/or result in a lower cost of borrowing when used in combination with bonds or other indebtedness of the District. Pursuant to the policy, the Board of Directors authorizes general parameters for interest rate swap transactions while the Finance and Personnel Committee structures specific transactions within the Board-authorized parameters. The Treasurer, with the concurrence of the Chairman of the Finance and Personnel Committee, is authorized to enter into interest rate swap transactions that are within all authorized parameters. The International Swaps and Derivatives Association, Inc. (ISDA) Master Agreement, including the schedule and credit support annex, is used as the form of contract with interest rate swap counterparties.

As of June 30, 2007, the District has two fixed receiver swap transactions outstanding with a total notional amount of \$140,000,000 maturing in March 2009. The District also has five fixed payer swap transactions outstanding with a total notional amount of \$130,000,000 with maturities in June 2019 and March 2029.

Irvine Ranch Water District
Notes to the Basic Financial Statements
(Continued)

(3) Swap Agreements, (Continued)

Current Year Active Swaps

<u>Effective Date</u>	<u>Maturity Date</u>	<u>Notional Amount</u>	<u>Base Index</u>	<u>Fixed Rate</u>
<u>Fixed Receiver Swaps</u>				
3/10/04	3/10/09	\$ 70,000,000	BMA	2.337%
3/10/04	3/10/09	<u>70,000,000</u>	BMA	2.337%
		<u>\$140,000,000</u>		
<u>Fixed Payer Swaps</u>				
6/4/06	6/4/19	\$ 20,000,000	LIBOR	6.200%
6/4/06	6/4/19	20,000,000	LIBOR	6.200%
6/17/06	6/17/19	30,000,000	LIBOR	6.140%
3/10/07	3/10/29	30,000,000	LIBOR	5.687%
3/10/07	3/10/29	<u>30,000,000</u>	LIBOR	5.687%
		<u>\$130,000,000</u>		

The fair value of the swap agreements at June 30, 2007 is (\$5,755,028) using a zero-coupon method. This method calculates the future net settlement payments required by the swaps, assuming, for the LIBOR fixed payer swaps, that the current LIBOR forward rates implied by the LIBOR yield curves correctly anticipate future LIBOR spot interest rates. For the BMA fixed receiver swaps, this assumes the yield curve generated by multiplying the current LIBOR forward rates implied by the LIBOR yield curves by the current BMA-to-LIBOR ratios correctly anticipate future BMA spot interest rates. These payments are then discounted using the spot rates implied by the current yield curves for hypothetical zero-coupon bonds due on the date of each future net settlement of the swaps.

Irvine Ranch Water District
Notes to the Basic Financial Statements
(Continued)

(4) Capital Assets

Capital Asset activity for the year ended June 30, 2007 is as follows:

	<u>Balance at June 30, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2007</u>
Capital assets, being depreciated:				
Waterworks in service:				
General plant	\$ 14,364,912	1,412,821	(890,715)	14,887,018
Utility plant	559,652,077	53,814,435	(91,016)	613,375,496
Sewer plant in service:				
General plant	14,406,143	1,900,782	(751,863)	15,555,062
Utility plant	<u>664,565,655</u>	<u>72,419,094</u>	<u>(135,456)</u>	<u>736,849,293</u>
Subtotal	<u>1,252,988,787</u>	<u>129,547,132</u>	<u>(1,869,050)</u>	<u>1,380,666,869</u>
Less accumulated depreciation:				
Waterworks in service:				
General plant	(10,321,912)	(934,489)	837,082	(10,419,319)
Utility plant	(164,699,218)	(8,341,716)	73,125	(172,967,809)
Sewer plant in service:				
General plant	(9,949,780)	(942,201)	698,230	(10,193,751)
Utility plant	<u>(187,267,347)</u>	<u>(18,230,107)</u>	<u>67,488</u>	<u>(205,429,966)</u>
Subtotal	<u>(372,238,257)</u>	<u>(28,448,513)</u>	<u>1,675,925</u>	<u>(399,010,845)</u>
Total capital assets being depreciated, net	880,750,530	101,098,619	(193,125)	981,656,024
Capital assets, not being depreciated:				
Land	34,731,400	7,795,521	-	42,526,921
Construction in progress	<u>203,409,455</u>	<u>131,205,917</u>	<u>(134,443,119)</u>	<u>200,172,253</u>
Total capital assets, net	<u>\$1,118,891,385</u>	<u>240,100,057</u>	<u>(134,636,244)</u>	<u>1,224,355,198</u>

* The balance at June 30, 2006 has been restated by \$7,817,615 to reflect SCWD capital assets, net of accumulated depreciation.

Irvine Ranch Water District
Notes to the Basic Financial Statements
(Continued)

(5) Capitalized Amounts

Net interest costs and certain administrative and general expenses relating to assets under construction are charged to construction-in-progress until the assets are ready for their intended use. Net interest costs are capitalized from the date proceeds are received from related borrowings.

The amount of administrative and general expenses and net interest costs capitalized to construction-in-progress for the years ended June 30, 2007 is as follows:

Administrative and general expenses, capitalized	\$6,776,401
Interest expenses (income), capitalized	<u>2,405,461</u>
	<u>\$9,181,862</u>

The total amount of interest cost incurred for the year ended June 30, 2007 (both the amounts expensed and the amounts capitalized) was \$73,571,494, including \$58,404,491 of interest on JPA Bonds.

(6) Real Estate Investments

Real estate investments are as follows at June 30, 2007:

Wood Canyon Villas, L.P.	\$ 5,903,701
Sycamore Canyon Apartments (net of accumulated depreciation of \$14,681,135)	28,606,326
Irvine Technology Center (net of accumulated depreciation of \$511,312)	<u>5,206,336</u>
	<u>\$39,716,363</u>

Included in real estate investments are two apartment projects and a commercial office building. The District, through Bardeen Partners, Inc., an affiliated entity, is the sole limited partner in Wood Canyon Villas, L.P., a California limited partnership (Wood Canyon), and the sole owner of both Sycamore Canyon Apartments and the commercial office building (Irvine Technology Center).

Irvine Ranch Water District
Notes to the Basic Financial Statements
(Continued)

(6) Real Estate Investments, (Continued)

Wood Canyon completed construction of a 230-unit apartment complex in May 1993. The complex is located in Orange County, California, and was 93% occupied at June 30, 2007. The Wood Canyon partnership agreement entitles the District to a 9% cumulative preferred return on its unrecovered contribution accounts, as defined in the agreement (initially \$6,000,000). For the year ended June 30, 2007, the District earned \$519,496 as preferred return income. The District's capital contributions and preferred return are guaranteed by the principals of the general partner who have also agreed to provide an irrevocable stand-by letter of credit, up to a maximum of \$750,000, to the extent the general partner's unrecovered contribution account falls below 12.5% of the District's unrecovered contribution account.

In December 1992, the District acquired a 450-unit apartment complex (original cost, \$34,093,000) in Orange County, California known as Sycamore Canyon Apartments. The complex was 89% occupied at June 30, 2007. The Sycamore Canyon Apartments Renovation Project began in June 2005, and included the addition of a clubhouse and fitness center to the existing leasing office, construction of a central maintenance shop and interior upgrades to the apartment units. The total project budget is \$10.2 million and expected to be completed in October 2007. As of June 2007, construction of the clubhouse, fitness center, maintenance shop and approximately 400 unit renovations were complete. Project costs as of June 30, 2007 were \$8.8 million.

In July 2003, the District completed construction of a 41,000 square foot for-lease office building located in Irvine, California known as the Irvine Technology Center. Land and construction costs for the project were \$5,534,276 and the building was 100% occupied as of June 30, 2007.

Net real estate income as of June 30, 2007 was as follows:

Real estate income	\$ 9,482,989
Real estate expense	(3,401,702)
Depreciation	<u>(1,160,210)</u>
	<u>\$ 4,921,077</u>

(7) Allen-McColloch Pipeline

For several years prior to fiscal 1995, the District was a part owner and participant in a 27-mile pipeline through which it has received a portion of its water capacity from Metropolitan Water District (MWD). During fiscal 1995, the District and the other participants sold the pipeline to MWD.

In accordance with the sale agreement, the District will receive a total of \$46,238,576 over 37 years, all amounts representing the District's ownership of approximately 42% of the pipeline project. In addition to the initial cash payment, the District has received \$36,346,891 in payments under the agreement of which \$2,853,887 was received for the year ended June 30, 2007. The District's receivable at June 30, 2007 of \$7,314,740 has been presented net of deferred imputed interest of \$2,547,322.

Irvine Ranch Water District
Notes to the Basic Financial Statements
(Continued)

(7) Allen-McColloch Pipeline (Continued)

The sales agreement further provides for the District to continue to have rights to the flow capacity from MWD, but MWD is not obligated to deliver an actual flow or quantity of water. The agreement also provides for MWD to forfeit ownership of the pipeline to the former owners (including the District) should it not make all required future payments.

Irvine Ranch Water District
Notes to the Basic Financial Statements
(Continued)

(8) Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2007 is as follows:

	Balance at <u>June 30, 2006*</u>	<u>Additions</u>	<u>Deletions</u>	Balance at <u>June 30, 2007</u>	Due within <u>one year</u>	Due in more <u>than one year</u>
General Obligation Bonds:						
1985 Consolidated	\$ 22,300,000	-	(3,800,000)	18,500,000	4,200,000	14,300,000
1985 Series B	21,200,000	-	(4,700,000)	16,500,000	5,100,000	11,400,000
1988 Series A	10,700,000	-	(1,100,000)	9,600,000	1,100,000	8,500,000
1989 C Consolidated	16,700,000	-	(1,600,000)	15,100,000	1,800,000	13,300,000
1991 Consolidated	12,000,000	-	(800,000)	11,200,000	800,000	10,400,000
1993 C Consolidated	37,500,000	-	-	37,500,000	-	37,500,000
1993 A Consolidated	8,700,000	-	(4,200,000)	4,500,000	4,500,000	-
1993 B Consolidated	4,000,000	-	(3,200,000)	800,000	800,000	-
1995 Consolidated	29,300,000	-	(1,400,000)	27,900,000	1,400,000	26,500,000
1995 A Consolidated						
Refunding	2,200,000	-	(2,200,000)	-	-	-
2006 Consolidated	60,000,000	-	-	60,000,000	-	60,000,000
Less unamortized amounts	<u>(14,770)</u>	<u>14,770</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total general obligation bonds	<u>224,585,230</u>	<u>14,770</u>	<u>(23,000,000)</u>	<u>201,600,000</u>	<u>19,700,000</u>	<u>181,900,000</u>
JPA Revenue Bonds:						
1998 Taxable Refunding No. 1	317,900,000	-	(9,770,000)	308,130,000	10,520,000	297,610,000
1998 Taxable Refunding No. 2	443,410,000	-	(11,695,000)	431,715,000	12,650,000	419,065,000
Plus unamortized amounts	<u>11,049,906</u>	<u>-</u>	<u>(1,381,238)</u>	<u>9,668,668</u>	<u>1,381,238</u>	<u>8,287,430</u>
Total JPA revenue bonds	<u>772,359,906</u>	<u>-</u>	<u>(22,846,238)</u>	<u>749,513,668</u>	<u>24,551,238</u>	<u>724,962,430</u>
Certificates of participation:						
1986 Certificates	44,200,000	-	(2,600,000)	41,600,000	2,800,000	38,800,000
2002 Certificates	<u>70,000,000</u>	<u>-</u>	<u>-</u>	<u>70,000,000</u>	<u>1,300,000</u>	<u>68,700,000</u>
Total certificates	<u>114,200,000</u>	<u>-</u>	<u>(2,600,000)</u>	<u>111,600,000</u>	<u>4,100,000</u>	<u>107,500,000</u>
Notes payable*	<u>6,650,362</u>	<u>-</u>	<u>(724,983)</u>	<u>5,925,379</u>	<u>376,541</u>	<u>5,548,838</u>
Other long-term liabilities:						
Newport Beach payable	2,000,000	-	-	2,000,000	2,000,000	-
Compensated absences	2,454,433	1,035,281	(904,551)	2,585,163	1,111,258	1,473,905
Other long-term liabilities*	<u>785,273</u>	<u>7,257</u>	<u>(24,443)</u>	<u>768,087</u>	<u>50,149</u>	<u>717,938</u>
Total other long-term liabilities	<u>5,239,706</u>	<u>1,042,538</u>	<u>(928,994)</u>	<u>5,353,250</u>	<u>3,161,407</u>	<u>2,191,843</u>
Total long-term liabilities	<u>\$1,123,035,204</u>	<u>1,057,308</u>	<u>(50,100,215)</u>	<u>1,073,992,297</u>	<u>51,889,186</u>	<u>1,022,103,111</u>

* The balance at June 30, 2006 has been restated by \$3,490,418 to reflect SCWD long-term liabilities.

Irvine Ranch Water District
Notes to the Basic Financial Statements
(Continued)

(8) Long-Term Liabilities, (Continued)

The following schedule summarizes the major terms of outstanding long-term debt:

	<u>Date of Issue</u>	<u>Original Issue</u>	<u>Pledged Revenue</u>	<u>Final Maturity Date</u>	<u>Principal Payment Range</u>	<u>Interest Rates</u>
General Obligation Bonds:						
1985 Consolidated	October 1, 1985	\$59,200,000	(1)(3)	October 1, 2010	\$1,000,000-5,200,000	Variable
1985 Series B	December 1, 1985	67,365,000	(1)(3)	October 1, 2009	1,300,000-6,000,000	Variable
1988 Series A	June 2, 1988	20,000,000	(1)(3)	November 1, 2013	300,000-1,400,000	Variable
1989 Consolidated	June 1, 1989	35,000,000	(1)(3)	June 1, 2015	100,000-2,500,000	Variable
1991 Consolidated	August 1, 1991	19,100,000	(1)(3)	August 1, 2016	400,000-1,400,000	Variable
1993 Consolidated	May 1, 1993	38,300,000	(1)(3)	April 1, 2033	800,000-2,400,000	Variable
1993A Consolidated	October 1, 1993	52,600,000	(1)(3)	May 1, 2009	700,000-4,800,000	Variable
1993B Consolidated	December 1, 1993	41,800,000	(1)(3)	August 1, 2009	800,000-4,000,000	Variable
1995 Consolidated	December 1, 1995	40,000,000	(1)(3)	January 1, 2021	800,000-2,600,000	Variable
2006 Consolidated	February 7, 2006	60,000,000	(1)(3)	July 1, 2035	1,200,000-6,000,000	Variable
JPA Revenue Bonds:						
1998 Taxable						
Refunding No. 1	February 17, 1998	374,650,000	(4)	March 15, 2014	70,000-231,345,000	7.705%
1998 Taxable						
Refunding No. 2	August 17, 1998	481,625,000	(4)	March 15, 2014	30,000-338,990,000	8.180%
Certificates of Participation:						
1986 Certificates	August 1, 1986	60,000,000	(5)	August 1, 2016	1,200,000-5,800,000	Variable
2002 Certificates	October 1, 2002	70,000,000	(2)	March 1, 2032	650,000-2,425,000	Variable

(1) Ad valorem assessments or, in lieu of assessments, in the District's discretion, charges for water or sewer service

(2) Water, sewer, and reclaimed water charges and certain other revenues, as defined in the trust agreement

(3) Proceeds from the sale of property

(4) JPA investment earnings and principal amounts

(5) Available revenues

Irvine Ranch Water District
Notes to the Basic Financial Statements
(Continued)

(8) Long-Term Liabilities. (Continued)

The General Obligation Bonds were issued to fund property, water, sewer and reclaimed water facilities. The annual debt service requirements for General Obligation Bonds, including principal and interest payments (based on the variable interest rates at fiscal year ended June 30, 2007 ranging from 3.70% to 3.83%) are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 19,700,000	7,599,180
2009	15,300,000	6,848,690
2010	16,600,000	6,266,720
2011	12,500,000	5,635,320
2012	8,000,000	5,160,290
2013-2017	37,100,000	21,239,260
2018-2022	26,400,000	15,174,500
2023-2027	20,900,000	10,842,050
2028-2032	25,900,000	6,634,500
2033-2036	<u>19,200,000</u>	<u>1,844,150</u>
Total	<u>\$201,600,000</u>	<u>87,244,660</u>

Joint Powers Agency Revenue Bonds

The Irvine Ranch Water District Joint Powers Agency (JPA), established as a separate entity by an agreement between the District and Community Facilities District No. 1 of the District, issued \$400,000,000 during fiscal 1988 and \$500,000,000 during fiscal 1989 of Local Agency Pool Revenue Bonds (Revenue Bonds). Concurrent with the issuance of these Revenue Bonds, the JPA established a separate trust estate for each issue comprised of authorized investments sufficient to pay the debt service (principal and interest) on each of the respective issues of the Revenue Bonds. Principal and interest on the Revenue Bonds were secured solely by the respective separate trust estates.

In February 1998, the JPA issued \$374,650,000 of Taxable Refunding Bonds Issue #1, which were used to redeem the 1988 Revenue Bonds in March 1998. The 1998 Taxable Refunding Bonds Issue #1 are due semi-annually on March 15 and September 15 in varying amounts from \$70,000 to \$231,345,000, including accrued interest at 7.705%.

Irvine Ranch Water District
Notes to the Basic Financial Statements
(Continued)

(8) Long-Term Liabilities, (Continued)

Joint Powers Agency Revenue Bonds (Continued)

In August 1998, the JPA issued \$481,625,000 of Taxable Refunding Bonds Issue #2, which were used to redeem the 1989 Revenue Bonds in September 1998. The 1998 Taxable Refunding Bonds Issue #2 are due semi-annually on March 15 and September 15 in varying amounts from \$30,000 to \$338,990,000, including accrued interest at 8.18%.

The outstanding revenue bonds liability has been reduced by the unamortized balance of the deferred refunding charge of \$1,533,394 (\$624,207 for issue #1 and \$909,187 for issue #2). Additionally, at the time of refunding, the District negotiated a \$25,604,713 contribution from a financial institution that has been amortized over a straight-line basis over the life of the refunding bonds. At June 30, 2007, the unamortized amount is \$11,202,062 (\$3,575,145 for issue #1 and \$7,626,917 for issue #2).

At June 30, 2007, the aggregate of the JPA taxable refunding bond issues (excluding amortizations) due is as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 23,170,000	58,535,836	81,705,836
2009	25,015,000	56,647,987	81,662,987
2010	23,495,000	54,753,534	78,248,534
2011	25,365,000	52,851,567	78,216,567
2012	27,380,000	50,798,261	78,178,261
2013	29,550,000	48,581,869	78,131,869
2014	<u>585,870,000</u>	<u>46,189,469</u>	<u>632,059,469</u>
Total	<u>\$739,845,000</u>	<u>368,358,523</u>	<u>1,108,203,523</u>

At June 30, 2007, the cash flow of the underlying JPA investments securing the JPA taxable refunding bond issues is as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 23,886,595	60,345,970	84,232,565
2009	25,784,961	58,399,872	84,184,833
2010	24,223,799	56,446,941	80,670,740
2011	26,154,396	54,486,027	80,640,423
2012	28,223,970	52,368,968	80,592,938
2013	30,462,027	50,084,118	80,546,145
2014	<u>663,777,974</u>	<u>47,617,882</u>	<u>711,395,856</u>
Total	<u>\$822,513,722*</u>	<u>379,749,778</u>	<u>1,202,263,500</u>

* Amount includes accumulated increase in fair value of investments of \$59,789,533.

Irvine Ranch Water District
Notes to the Basic Financial Statements
(Continued)

(8) Long-Term Liabilities, (Continued)

Certificates of Participation

The District issued \$60,000,000 of Certificate of Participation on August 14, 1986 to fund property, water, sewer and reclaimed water facilities. The outstanding principal balance was \$41,600,000 at June 30, 2007. The Certificates bear interest at a daily variable rate that is determined each day by the remarketing agent. The average interest rate during the year ended June 30, 2007 was 3.35%.

In October 2002, the District issued \$70,000,000 of Certificates of Participation to provide financing for certain water, sewer and reclaimed water system improvements and related facilities. The outstanding principal balance was \$70,000,000 at June 30, 2007. The Certificates bear interest at a weekly variable rate that is determined each week by auction process. The average interest rate during the year ended June 30, 2007 was 3.27%.

The annual debt service requirements for Certificates of Participation, including principal and interest payments (based on the variable interest rates at fiscal year ended June 30, 2007 ranging from 3.68% to 3.83%), are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 4,100,000	4,172,780
2009	4,400,000	4,017,635
2010	4,750,000	3,851,145
2011	5,150,000	3,671,323
2012	5,500,000	3,476,325
2013-2017	35,100,000	13,876,183
2018-2022	13,250,000	8,770,300
2023-2027	17,250,000	6,045,243
2028-2032	<u>22,100,000</u>	<u>2,522,383</u>
Total	<u>\$ 111,600,000</u>	<u>50,403,317</u>

Irvine Ranch Water District
Notes to the Basic Financial Statements
(Continued)

(8) Long-Term Liabilities, (Continued)

Notes Payable

The District has three loans from the State of California to fund reclaimed water projects. The balance of the 1988 loan was \$231,675 at June 30, 2007. The 1988 loan is payable annually with interest at 4.01%. The balance on the 1990 loan was \$512,537 at June 30, 2007. The annual interest rate is 3.50%. The balance on the 2000 loan was \$2,329,743 at June 30, 2007. The annual interest rate is 0.00%, however, the loan agreement required the District to prepay the interest of \$647,000, which will be amortized over the life of the loan. Such loan is payable annually in fixed installments of \$194,146 through 2020.

The District also assumed two loans as a result of the consolidation of SCWD. The original loan amount of the first loan was \$1,940,500. The loan is payable semi-annually with interest at 5.85%. The loan matures in September 2020. The balance of the loan at June 30, 2007 was \$1,629,500. The original loan amount of the second loan was \$1,300,000. The loan is payable semi-annually with interest at 2.32%. The loan matures in July 2025. The balance of the loan at June 30, 2007 was \$1,221,924.

Amounts required to amortize notes payable at June 30, 2007 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 376,541	182,126
2009	541,585	166,183
2010	454,433	153,951
2011	429,493	142,949
2012	325,895	134,663
2013-2017	1,721,192	581,753
2018-2022	1,803,405	296,409
2023-2026	<u>272,835</u>	<u>12,805</u>
Total	<u>\$5,925,379</u>	<u>1,670,839</u>

Payments to City of Newport Beach

In 1973, the District entered into an agreement with the City of Newport Beach (City) that facilitated the planning and financing of water and sewer infrastructure in the unincorporated area of Newport Coast. The agreement provided that the District would proceed with bond authorization and construction of facilities and that at some later date, if the City annexed the subject area, the District would convey water and sewer facilities or capacities to the extent necessary to serve the area. Considerable time elapsed, the Newport Coast area was developed and populated, the District constructed the necessary facilities to meet the water and sewer needs of the Newport Coast area, and the issue of ultimate water and sewer service provision was never fully resolved.

Irvine Ranch Water District
Notes to the Basic Financial Statements
(Continued)

(8) Long-Term Liabilities, (Continued)

Payments to City of Newport Beach, (Continued)

The 1973 Agreement did not identify the term within which the conveyance of facilities had to occur and with the passage of time the standing of the 1973 Agreement became uncertain. The reduction in District net assets that resulted from the District entering into this agreement was recognized as a special item (expense) for the year ended June 30, 2002.

To clarify the issue and address the ultimate disposition of water and sewer service in Newport Coast, the City and the District in 2000 entered into the "Agreement Between Irvine Ranch Water District and the City of Newport Beach Relative to Annexation". This Agreement provided that in the event the City was successful in its ongoing efforts to annex the Newport Coast area, the water and sewer service obligation would remain with the District in perpetuity. Furthermore, in the event of a successful annexation by the City, the District agreed to compensate the City over a six year period in a total amount of \$25,000,000, of which \$23,000,000 was paid through June 30, 2007. The remaining \$2,000,000 is recorded in other long-term liabilities and is to be paid in December 2007.

(9) Letters of Credit

The District has letters of credit securing the payment of principal and interest on General Obligation Bonds. The letters of credit are issued in favor of the trustees and enable the trustees to make drawings against the letters of credit for payment of principal and interest amounts.

The terms of the letters of credit are summarized as follows:

<u>Letter of Credit</u>	<u>Trustee</u>	<u>Amount</u>	<u>Expiration Date</u>
Landesbank Hessen-Thuringen:			
1985 Consolidated	Bank of New York	\$18,971,370	October 1, 2010
1985 Series B	Bank of New York	16,920,411	October 1, 2009
1988 Series A	Bank of New York	9,805,152	November 15, 2013
Landesbank Baden-Wuerttemberg:			
1986 Certificates of Participation	J.P. Morgan Trust Co.	42,264,460	December 29, 2015
1989 Consolidated	Bank of New York	15,298,575	June 1, 2015
1991 Consolidated	Bank of New York	11,347,288	December 29, 2015
1993 B Consolidated	U.S. Bank Trust	810,521	August 1, 2007
Bank of America:			
1993 Consolidated	Bank of New York	37,987,500	May 2, 2009
1993 A Consolidated	U.S. Bank Trust	4,557,699	May 1, 2008
State Street Global Markets:			
1995 Consolidated	Bank of New York	28,294,422	May 2, 2009

Irvine Ranch Water District
Notes to the Basic Financial Statements
(Continued)

(10) Rate Covenants

The District is required by certain debt documents to collect revenues which will be at least sufficient to yield net revenues equal to 125% of debt service payable during the fiscal year. The following demonstrates the District's compliance with the rate covenants for the year ended June 30, 2007. Amounts are presented in thousands.

Net revenues:

Revenues:	
Water sales and service charges	\$ 45,138
Sewer services charges	37,649
Connection fees	22,122
Other income	10,457
Residual real estate income	4,921
Investment income	10,768
Residual JPA income	3,389
	<u>134,444</u>

Operating and maintenance expenses:

Water:	
Water services	33,281
General and administrative	10,267
Customer accounts	1,698
Sewer:	
Sewer services	23,439
General and administrative	6,328
Customer accounts	1,131
Other expenses	883
	<u>77,027</u>

Net revenues	<u>\$ 57,417</u>
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Debt service on parity obligations:

2002 COP principal and interest	\$ 2,319
2000 State loan	453
Debt service	<u>\$ 2,772</u>

Debt ratio	<u>2,071%</u>
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Irvine Ranch Water District
Notes to the Basic Financial Statements
(Continued)

(11) Net Assets

Net assets at June 30, 2007 consisted of the following:

Invested in capital assets, net of related debt:	
Property, plant and equipment, net	\$ 1,224,355,198
Less:	
Outstanding debt issued to construct capital assets:	
General obligation bonds	(201,600,000)
Certificates of participation	(111,600,000)
Notes payable	(5,925,379)
Add back unspent portion of debt applicable to bond proceeds	<u>22,409,824</u>
Total invested in capital assets, net of related debt	<u>927,639,643</u>
Restricted net assets:	
Restricted for water services	229,171,652
Restricted for sewer services	<u>38,949,485</u>
Total restricted net assets	<u>268,121,137</u>
Total net assets	<u>\$1,195,760,780</u>

(12) Defined Benefit Pension Plan (PERS)

The District contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement, disability benefits, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Copies of PERS' annual financial report may be obtained from its executive office at 400 "P" Street, Sacramento, California 95814.

Participants are required to contribute 7% of their annual covered salary. The District makes the contributions required of District employees on their behalf and for their account. Benefit provisions and all other requirements are established by State statute and the District's Board of Directors.

Irvine Ranch Water District
Notes to the Basic Financial Statements
(Continued)

(12) Defined Benefit Pension Plan (PERS), (Continued)

Under GASB 27, an employer reports an annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation (NPO). The ARC for the period July 1, 2006 to June 30, 2007 has been determined by an actuarial valuation of the plan as of June 30, 2004. The contribution rate for the indicated period is 9.538% of payroll for the Retirement Program. In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of June 30, 2007, this contribution rate would be multiplied by the payroll of covered employees that was actually paid during the period July 1, 2006 to June 30, 2007.

A summary of principal assumptions and methods used to determine the ARC is shown below.

Valuation Date	June 30, 2004
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	24 Years as of the Valuation Date
Asset Valuation Method	15 Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return	7.75% (net of administrative expenses)
Projected Salary Increases	3.25% to 14.45% depending on Age, Service, and type of employment
Inflation	3.00%
Payroll Growth	3.25%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation component of 3.00% and an annual production growth of 0.25%.

Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into PERS. Subsequent plan amendments are amortized as a level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a rolling period, which results in an amortization of 10% of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization period may not be lower than the payment calculated over a 30 year amortization period.

Irvine Ranch Water District
Notes to the Basic Financial Statements
(Continued)

(12) Defined Benefit Pension Plan (PERS), (Continued)

The Schedule of Funding Progress below shows the recent history of the actuarial value of assets, actuarial accrued liability, their relationship, and the relationship of the unfunded accrued liability to payroll.

Required Supplementary Information

<u>Valuation Date</u>	<u>Entry Age Normal Accrued Liability</u>	<u>Actuarial Value of Assets</u>	<u>Unfunded Liability/ (Excess Assets)</u>	<u>Funded Status</u>	<u>Annual Covered Payroll</u>	<u>UAAL As a % of Payroll</u>
6/30/03	\$64,703,140	59,858,118	4,845,022	92.5%	17,287,390	28.0%
6/30/04	71,814,764	64,384,006	7,430,758	89.7%	18,214,652	40.8%
6/30/05	85,213,814	72,995,819	12,217,995	85.7%	19,237,200	63.5%

Information for the June 30, 2006 valuation date was not available for inclusion in the financial statements.

Three-Year Trend Information

Annual Pension Cost (Employer Contribution)

<u>Fiscal Year</u>	<u>Employee Contribution (District Paid)</u>	<u>Employer Contribution</u>	<u>Total Annual Pension Cost (APC)</u>	<u>Percentage of APC Contribution</u>	<u>Net Pension Obligation</u>
6/30/05	\$1,299,490	738,667	2,038,157	100%	-
6/30/06	1,375,657	2,015,140	3,390,797	100%	-
6/30/07	1,502,702	2,226,686	3,729,388	100%	-

In November 2006, the District received from PERS an actuarial report that contained information concerning the employer contribution rate for the 2007-08 fiscal year. This information is summarized below. The rate is greater than the contribution rate for the 2006-07 fiscal year which is reflected in the accompanying financial statements.

	<u>Fiscal Year 2007-08</u>	<u>Fiscal Year 2006-07</u>
Normal cost	6.630%	6.521%
Amortization of net actuarial liability (surplus)	<u>4.311%</u>	<u>3.017%</u>
	<u>10.941%</u>	<u>9.538%</u>

Irvine Ranch Water District
Notes to the Basic Financial Statements
(Continued)

(13) Other Post Employment Benefits

Retirement for Part Time Employees

The District provides pension benefits for all of its part-time employees through a defined contribution plan, in lieu of providing social security benefits. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The plan is administered as part of the District's Section 457 plan. All part-time and seasonal employees are eligible to participate from the date of employment. Federal legislation requires contributions of at least 7.5% to a retirement plan. For the year ended June 30, 2007, the District's payroll covered by the plan was \$537,614. The District made no employee contributions. The employees contributed \$40,321 (7.5% of current covered payroll) for the year ended June 30, 2007.

Deferred Compensation

All regular, full-time District employees are eligible to participate in the District's deferred compensation program pursuant to Section 457 of the Internal Revenue Code (Plan) whereby they can voluntarily contribute a portion of their earnings into a tax-deferred fund administered by the District and invested through a third party provider. Pursuant to the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), effective January 1, 2002, employees may contribute the lesser of 100% of includible compensation or the maximum dollar amount allowable under Internal Revenue Code Section 457 in effect for the year. The dollar amount currently in effect for calendar year 2007 is \$15,500. After 2007, the limit is being indexed to inflation in \$500 increments.

Effective July 1, 1986, for employees with one year or more of service, the District matches up to 15% of the employee's contributions (subject to annual limitation) and employees with two years or more of service are entitled to an additional annual contribution by the District based on 1% of the employee's annual compensation. As of January 1, 1997, such employer contribution amounts are deposited into a money purchase plan pursuant to Section 401(a) of the Internal Revenue Code. During the year ended June 30, 2007, the District contributed \$291,846 to employee accounts under the 401(a) plan.

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

Irvine Ranch Water District
Notes to the Basic Financial Statements
(Continued)

(14) Commitments and Contingencies

Orange County Sanitation District (OCSD)

The District, with OCSD, negotiated an agreement as of July 1, 1985, as amended. The District agreed to annually fund payment of the District's proportionate share of OCSD's joint capital outlay revolving fund (CORF) budget requirements and certain capital improvements, calculated on an annual flow basis using the four highest months of actual flows, during the term of the agreement. The capital assets associated with this agreement are co-owned by the two agencies and provide an operational benefit to both agencies. The District's payments for the year ended June 30, 2007 totaled \$20,914,758. The District's share of the jointly funded share of CORF and capital improvements is included in sewer plant in the accompanying balance sheets. Additional undeterminable amounts may be payable to or receivable from OCSD related to operations for the fiscal years ended June 30, 2004 through June 30, 2007. The District will be performing an audit of OCSD's records to determine additional amounts payable or receivable when OCSD makes the records available for audit.

Legal Actions

The District is a defendant in various legal actions arising out of the conduct of the District's operations. Management believes that, based on current knowledge, the outcome of these matters will not have a material adverse effect on the District's financial position.

Commitments

The following material construction commitments existed at June 30, 2007:

<u>Project Name</u>	<u>Cumulative Expenditures as of June 30, 2007</u>	<u>Remaining Commitments</u>
LAWRP 2005 Upgrades	\$6,745,455	11,694,331
HATS Sewer Diversion to MWRP	488,612	7,899,488
MWRP 2005 Upgrades Phase 1	6,921,049	4,986,646
Planning Area 1, Zone 5 Reservoir	1,122,501	4,288,960
Planning Area 6, Zone 6 Reservoir, Outlet	2,099,917	3,254,122
Planning Area 6, Zone D Reservoir, Inlet/Outlet	1,424,714	2,183,577
Planning Area 1, Zone 3-5 Booster Pump Station	846,647	2,140,787
Planning Area 1, Zone A-C Booster Pump Station	817,799	2,140,787

Irvine Ranch Water District
Notes to the Basic Financial Statements
(Continued)

(15) Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance.

Property, Boiler and Machinery insurance is provided through the District's participation in the Public Entity Property Insurance Program administered by Alliant Insurance Services, Inc.. Property insurance includes flood insurance but does not include earthquake insurance. General and excess liability coverage and workers compensation insurance is provided through participation in the California State Association of Counties Excess Insurance Authority via the California Public Entity Insurance Authority. Pollution and legal liability coverage for the Irvine Desalter Project is provided by a policy with Indian Harbor Insurance Company.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, for example from salvage or subrogation, are another component of the claims liability estimate. An excess coverage insurance policy covers individual claims in excess of \$100,000. The District does not have a liability at June 30, 2007 for unpaid claims. Settlements have not exceeded coverages for each of the past three fiscal years.

Irvine Ranch Water District
Notes to the Basic Financial Statements
(Continued)

(16) Subsequent Events

Issuance of General Obligation Bonds

On July 19, 2007, the District issued \$100,000,000 of General Obligation Bonds to provide funding for water and sewer capital projects located in Improvement District Nos. 150/250 and 113/213. The bonds have a 7-day auction interest rate with an initial rate of 3.45%. The Bonds are subject to mandatory principal redemption in varying amounts ranging from \$2,100,000 to \$5,900,000 through May 2037.

(17) Consolidation of the Santiago County Water District

Effective July 1, 2006, the District and Santiago County Water District (SCWD) consolidated under an Agreement dated January 17, 2006 that established the terms and conditions through which the two districts were proposed to consolidate. The Consolidation Agreement, negotiated between the respective Board of Directors of the two agencies, was approved by the Orange County Local Agency Formation Commission on April 12, 2006.

SCWD served over 700 service connections in the unincorporated Orange County communities of Modjeska, Silverado and Williams Canyons, as well as sparsely developed Baker, Blackstar, Fremont, Hall and Ladd Canyons.

Pursuant to the Agreement, all SCWD assets and property were transferred to the District on July 1, 2006. At that time, SCWD transferred approximately \$1.9 million in cash as well as certain other property including the value of the SCWD capacity in the Allen McCullough Pipeline. In addition, the District assumed liabilities of SCWD including its accounts payable, various notes payable, and certain retirement plan obligations.

Residents of most of the SCWD service area received an immediate reduction of 20% from their existing water service charges and water commodity rate. A fixed rate differential between the SCWD and existing Irvine Ranch area customers is being utilized to retire the equity considerations required of the SCWD customers to the current District customers (the "Acquisition Balance"). The Acquisition Balance was determined as the agreed-upon value of existing facilities that had been built and paid for by the District and which would provide capacity rights and/or service to SCWD customers. Once the pay-back of the Acquisition Balance is complete, the water rates for the customers in the former SCWD service areas will be brought in-line with the customers in the rest of the IRWD service area. The consolidation of SCWD and the District is intended and designed to produce revenue and cost neutrality to the existing District customer base.

Operating activities of the former SCWD are included in the District operating results for the entire fiscal year.

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Supplementary Information

Irvine Ranch Water District
Combining Schedule of Net Assets - Water Subfunds
June 30, 2007
(in thousands)

	100/101	112	113	120	121	130	135	140
ASSETS								
Current Assets:								
Cash and investments	\$48,620	-	-	5,094	-	19,125	7,673	12,832
Receivables:								
Customer accounts receivable	-	-	37	31	146	96	665	181
Interest receivable	1,248	-	-	26	64	276	172	264
Joint Powers Agency (JPA) interest receivable	-	-	-	-	-	-	-	-
Allen-McColloch Pipeline receivable, current	-	-	-	-	68	41	94	16
Other receivables	1,314	22	20	-	109	63	37	23
Total receivables	2,562	22	57	57	387	476	968	484
Other Current Assets:								
Inventories	836	-	-	-	-	-	-	-
Prepaid items and deposits	659	-	-	-	-	-	-	-
JPA investment program, current	-	-	-	-	-	-	-	-
Total other current assets	1,495	-	-	-	-	-	-	-
Total current assets	52,677	22	57	5,151	387	19,601	8,641	13,316
Noncurrent Assets:								
Capital Assets:								
Waterworks in service	93,479	3,020	4,967	19,628	59,055	44,565	73,234	45,744
Less: accumulated depreciation	(41,901)	(126)	(164)	(9,235)	(13,199)	(14,696)	(30,526)	(10,914)
Total capital assets being depreciated, net	51,578	2,894	4,803	10,393	45,856	29,869	42,708	34,830
Land	5,255	80	103	246	1,143	768	1,084	364
Construction in progress	13,960	498	5,175	-	2,279	1,469	1,100	1,554
Total capital assets, net	70,793	3,472	10,081	10,639	49,278	32,106	44,892	36,748
Other Noncurrent Assets:								
Debt service cash and investments	3,193	-	-	234	612	-	2,461	332
Unamortized debt issuance expense	80	-	18	13	26	10	16	173
Allen-McColloch Pipeline receivable, net	-	-	-	-	948	569	1,268	223
JPA investment program, net	-	-	-	-	-	-	-	-
Real estate investments	-	-	-	-	-	-	-	-
Total other noncurrent assets	3,273	-	18	247	1,586	579	3,745	728
Interdistrict receivable	56,327	-	-	-	275	179	-	-
Total noncurrent assets	130,393	3,472	10,099	10,886	51,139	32,864	48,637	37,476
Total assets	183,070	3,494	10,156	16,037	51,526	52,465	57,278	50,792

150	151/153/ 154/155	160/161	182/84	186/88 /89	190	300	700/701	800-804	Total Water
15,938	5,577	5,412	-	766	240	-	-	-	121,277
360	64	298	203	61	10	-	129	-	2,281
210	82	147	26	20	44	-	12	-	2,591
-	-	-	-	-	-	11,416	-	-	11,416
139	60	44	18	7	9	-	-	-	496
171	5	50	41	12	24	-	-	-	1,891
880	211	539	288	100	87	11,416	141	-	18,675
1,446	22	-	-	-	-	-	-	-	2,304
-	58	-	-	-	-	-	-	-	717
-	-	-	-	-	-	11,944	-	-	11,944
1,446	80	-	-	-	-	11,944	-	-	14,965
18,264	5,868	5,951	288	866	327	23,360	141	-	154,917
145,708	10,097	56,539	35,831	17,899	13,499	-	4,998	-	628,263
(33,618)	(2,467)	(12,584)	(8,132)	(3,266)	-	-	(2,561)	-	(183,389)
112,090	7,630	43,955	27,699	14,633	13,499	-	2,437	-	444,874
4,290	143	1,116	392	168	569	-	3	-	15,724
54,614	606	4,672	933	238	1,038	-	7	-	88,143
170,994	8,379	49,743	29,024	15,039	15,106	-	2,447	-	548,741
629	-	3,683	-	-	2,619	-	-	-	13,763
582	10	212	35	115	18	-	-	-	1,308
1,925	810	607	251	95	123	-	-	-	6,819
-	-	-	-	-	-	399,313	-	-	399,313
-	-	-	-	-	-	-	-	19,858	19,858
3,136	820	4,502	286	210	2,760	399,313	-	19,858	441,061
680	-	-	-	-	1,135	-	-	-	58,596
174,810	9,199	54,245	29,310	15,249	19,001	399,313	2,447	19,858	1,048,398
193,074	15,067	60,196	29,598	16,115	19,328	422,673	2,588	19,858	1,203,315

(Continued)

Irvine Ranch Water District
Combining Schedule of Net Assets - Water Subfunds
(Continued)

	<u>100/101</u>	<u>112</u>	<u>113</u>	<u>120</u>	<u>121</u>	<u>130</u>	<u>135</u>	<u>140</u>
LIABILITIES AND NET ASSETS								
Current Liabilities:								
Accounts payable and accrued expenses	6,560	38	2,426	-	180	125	345	48
Customer deposits and advance payments	340	-	-	-	-	-	-	-
Accrued interest:								
JPA revenue bonds	-	-	-	-	-	-	-	-
Other accrued interest payable	40	-	-	5	10	4	1	54
Current portion of long-term liabilities:								
General obligation bonds	-	-	-	301	870	919	-	1,194
Certificates of participation	751	-	-	13	20	25	-	90
JPA revenue bonds	-	-	-	-	-	-	-	-
Notes payable	-	-	-	-	-	-	-	-
Other liabilities	2,161	-	-	-	-	-	-	-
Total current liabilities	<u>9,852</u>	<u>38</u>	<u>2,426</u>	<u>319</u>	<u>1,080</u>	<u>1,073</u>	<u>346</u>	<u>1,386</u>
Long-Term Liabilities, net of current portion:								
General obligation bonds	-	-	1,500	673	1,793	-	4,969	13,892
Certificates of participation	10,396	-	-	185	273	347	-	3,996
JPA revenue bonds	-	-	-	-	-	-	-	-
Notes payable	-	-	-	-	-	-	-	-
Other long-term liabilities	1,469	-	-	-	-	-	-	-
Total long-term liabilities	<u>11,865</u>	<u>-</u>	<u>1,500</u>	<u>858</u>	<u>2,066</u>	<u>347</u>	<u>4,969</u>	<u>17,888</u>
Interdistrict payable	<u>2,268</u>	<u>3,500</u>	<u>1,115</u>	<u>-</u>	<u>116</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>23,985</u>	<u>3,538</u>	<u>5,041</u>	<u>1,177</u>	<u>3,262</u>	<u>1,420</u>	<u>5,315</u>	<u>19,274</u>
Net Assets:								
Net assets at beginning of year	136,747	216	3,068	8,554	51,118	49,621	51,042	34,242
Change in net assets	22,338	(260)	2,047	6,306	(2,854)	1,424	921	(2,724)
Total net assets	<u>\$159,085</u>	<u>(44)</u>	<u>5,115</u>	<u>14,860</u>	<u>48,264</u>	<u>51,045</u>	<u>51,963</u>	<u>31,518</u>

<u>150</u>	<u>151/153/ 154/155</u>	<u>160/161</u>	<u>182/84</u>	<u>186/188/ 189</u>	<u>190</u>	<u>300</u>	<u>700/701</u>	<u>800-804</u>	<u>Total Water</u>
2,565	62	89	72	18	22	-	-	143	12,693
-	-	-	-	-	-	-	-	-	340
-	-	-	-	-	-	8,613	-	-	8,613
85	42	16	13	14	11	-	-	-	295
2,986	-	913	400	471	863	-	-	-	8,917
473	-	291	-	-	47	-	-	-	1,710
-	-	-	-	-	-	12,275	-	-	12,275
-	114	-	-	-	-	-	-	-	114
-	-	-	-	-	-	-	-	-	2,161
<u>6,109</u>	<u>218</u>	<u>1,309</u>	<u>485</u>	<u>503</u>	<u>943</u>	<u>20,888</u>	<u>-</u>	<u>143</u>	<u>47,118</u>
34,073	-	3,120	3,560	3,478	1,679	-	-	-	68,737
21,871	-	14,186	-	-	649	-	-	-	51,903
-	-	-	-	-	-	362,481	-	-	362,481
-	2,741	-	-	-	-	-	-	-	2,741
-	556	-	-	2	-	-	-	-	2,027
<u>55,944</u>	<u>3,297</u>	<u>17,306</u>	<u>3,560</u>	<u>3,480</u>	<u>2,328</u>	<u>362,481</u>	<u>-</u>	<u>-</u>	<u>487,889</u>
-	1,280	-	735	-	-	-	172	1,562	10,748
<u>62,053</u>	<u>4,795</u>	<u>18,615</u>	<u>4,780</u>	<u>3,983</u>	<u>3,271</u>	<u>383,369</u>	<u>172</u>	<u>1,705</u>	<u>545,755</u>
114,937	395	37,350	25,344	12,201	13,707	41,133	2,947	18,058	600,680
16,084	9,877	4,231	(526)	(69)	2,350	(1,829)	(531)	95	56,880
<u>131,021</u>	<u>10,272</u>	<u>41,581</u>	<u>24,818</u>	<u>12,132</u>	<u>16,057</u>	<u>39,304</u>	<u>2,416</u>	<u>18,153</u>	<u>657,560</u>

Irvine Ranch Water District
Combining Schedule of Net Assets - Sewer Subfunds
June 30, 2007
(in thousands)

	200/210/ 211	212	213	220	221	230
ASSETS						
Current Assets:						
Cash and investments	\$ -	-	-	9,583	12,048	6,984
Receivables:						
Customer accounts receivable	902	-	37	44	494	191
Interest receivable	-	-	-	26	42	20
Joint Powers Agency (JPA) interest receivable	-	-	-	-	-	-
Notes receivable, current portion	37	-	-	-	-	-
Other receivables	1,150	6	273	21	-	9
Total receivables	<u>2,089</u>	<u>6</u>	<u>310</u>	<u>91</u>	<u>536</u>	<u>220</u>
Other Current Assets:						
Prepaid items and deposits	12	37	32	-	88	45
JPA investment program, current portion	-	-	-	-	-	-
Total other current assets	<u>12</u>	<u>37</u>	<u>32</u>	<u>-</u>	<u>88</u>	<u>45</u>
Total current assets	<u>2,101</u>	<u>43</u>	<u>342</u>	<u>9,674</u>	<u>12,672</u>	<u>7,249</u>
Noncurrent Assets:						
Capital Assets:						
Sewer plant in service	146,722	6,771	6,145	39,190	73,914	59,448
Less: accumulated depreciation	<u>(41,655)</u>	<u>(648)</u>	<u>(506)</u>	<u>(19,226)</u>	<u>(20,513)</u>	<u>(20,988)</u>
Total capital assets being depreciated, net	105,067	6,123	5,639	19,964	53,401	38,460
Land	18,512	114	81	-	1,294	1,078
Construction in progress	13,008	3,866	16,838	-	8,585	5,150
Total capital assets, net	<u>136,587</u>	<u>10,103</u>	<u>22,558</u>	<u>19,964</u>	<u>63,280</u>	<u>44,688</u>
Other Noncurrent Assets:						
Debt service cash and investments	3,194	-	-	-	1,167	200
Unamortized debt issuance expense	87	-	123	14	51	85
Notes receivable, net of current portion	354	-	-	-	-	-
JPA investment program, net	-	-	-	-	-	-
Real estate investments	-	-	-	-	-	-
Total other noncurrent assets	<u>3,635</u>	<u>-</u>	<u>123</u>	<u>14</u>	<u>1,218</u>	<u>285</u>
Interdistrict receivable	-	-	-	135	194	89
Total noncurrent assets	<u>140,222</u>	<u>10,103</u>	<u>22,681</u>	<u>20,113</u>	<u>64,692</u>	<u>45,062</u>
Total assets	<u>142,323</u>	<u>10,146</u>	<u>23,023</u>	<u>29,787</u>	<u>77,364</u>	<u>52,311</u>

235	240	250	252/253	260/261	282 /284	286/288 /289	290	400	900-904	Total Sewer
-	-	-	-	1,744	4,097	-	-	-	-	34,456
319	204	546	-	341	74	23	38	-	-	3,213
-	-	-	-	5	10	-	-	-	-	103
-	-	-	-	-	-	-	-	11,415	-	11,415
-	-	-	-	-	-	-	-	-	-	37
72	-	23	-	6	5	-	2	-	-	1,567
391	204	569	-	352	89	23	40	11,415	-	16,335
-	43	84	-	64	-	-	15	-	-	420
-	-	-	-	-	-	-	-	11,943	-	11,943
-	43	84	-	64	-	-	15	11,943	-	12,363
391	247	653	-	2,160	4,186	23	55	23,358	-	63,154
52,221	76,027	170,813	-	67,964	30,881	4,377	17,931	-	-	752,404
(26,315)	(19,615)	(40,121)	-	(16,509)	(8,769)	(757)	-	-	-	(215,622)
25,906	56,412	130,692	-	51,455	22,112	3,620	17,931	-	-	536,782
1,937	372	1,810	-	786	338	42	439	-	-	26,803
10,331	5,539	39,539	12	6,377	648	444	1,692	-	-	112,029
38,174	62,323	172,041	12	58,618	23,098	4,106	20,062	-	-	675,614
-	120	2,229	-	1,263	-	-	474	-	-	8,647
33	259	699	-	98	64	-	30	-	-	1,543
-	-	-	-	-	-	-	-	-	-	354
-	-	-	-	-	-	-	-	399,314	-	399,314
-	-	-	-	-	-	-	-	-	19,858	19,858
33	379	2,928	-	1,361	64	-	504	399,314	19,858	429,716
-	-	-	-	64	45	-	1,457	-	-	1,984
38,207	62,702	174,969	12	60,043	23,207	4,106	22,023	399,314	19,858	1,107,314
38,598	62,949	175,622	12	62,203	27,393	4,129	22,078	422,672	19,858	1,170,468

(Continued)

Irvine Ranch Water District
Combining Schedule of Net Assets - Sewer Subfunds
(Continued)

	200/210/ 211	212	213	220	221	230
LIABILITIES AND NET ASSETS						
Current Liabilities:						
Accounts payable and accrued expenses	3,923	171	2,503	-	455	264
Accrued interest:						
JPA revenue bonds	-	-	-	-	-	-
Other accrued interest payable	745	2	3	8	26	41
Current portion of long-term liabilities:						
General obligation bonds	-	-	-	-	2,100	762
Certificates of participation	820	-	-	36	89	667
JPA revenue bonds	-	-	-	-	-	-
Notes payable	8	33	20	62	-	37
Other liabilities	<u>1,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total current liabilities	<u>6,496</u>	<u>206</u>	<u>2,526</u>	<u>106</u>	<u>2,670</u>	<u>1,771</u>
Long-Term Liabilities, net of current portion:						
General obligation bonds	-	-	11,100	-	3,907	566
Certificates of participation	11,363	-	-	492	1,232	9,248
JPA revenue bonds	-	-	-	-	-	-
Notes payable	84	354	216	113	547	393
Other long-term liabilities	<u>165</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total long-term liabilities	<u>11,612</u>	<u>354</u>	<u>11,316</u>	<u>605</u>	<u>5,686</u>	<u>10,207</u>
Interdistrict payable	<u>16,578</u>	<u>8,508</u>	<u>1,105</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>34,686</u>	<u>9,068</u>	<u>14,947</u>	<u>711</u>	<u>8,356</u>	<u>11,978</u>
Net Assets:						
Net assets at beginning of year	104,772	1,468	4,344	25,542	71,623	36,545
Change in net assets	<u>2,865</u>	<u>(390)</u>	<u>3,732</u>	<u>3,534</u>	<u>(2,615)</u>	<u>3,788</u>
Total net assets	<u>\$107,637</u>	<u>1,078</u>	<u>8,076</u>	<u>29,076</u>	<u>69,008</u>	<u>40,333</u>

<u>235</u>	<u>240</u>	<u>250</u>	<u>252/253</u>	<u>260/261</u>	<u>282/284</u>	<u>286/288/ 289</u>	<u>290</u>	<u>400</u>	<u>900-904</u>	<u>Total Sewer</u>
1,381	69	2,481	1	201	74	44	48	-	143	11,758
-	-	-	-	-	-	-	-	8,612	-	8,612
1	108	151	-	15	22	-	17	-	-	1,139
-	1,279	4,130	-	1,051	700	-	761	-	-	10,783
-	87	525	-	152	-	-	14	-	-	2,390
-	-	-	-	-	-	-	-	12,276	-	12,276
-	27	36	-	30	-	-	10	-	-	263
-	-	-	-	-	-	-	-	-	-	1,000
<u>1,382</u>	<u>1,570</u>	<u>7,323</u>	<u>1</u>	<u>1,449</u>	<u>796</u>	<u>44</u>	<u>850</u>	<u>20,888</u>	<u>143</u>	<u>48,221</u>
2,988	29,183	53,817	-	2,688	5,300	-	3,614	-	-	113,163
-	4,566	22,562	-	5,934	-	-	200	-	-	55,597
-	-	-	-	-	-	-	-	362,481	-	362,481
-	289	385	-	323	-	-	104	-	-	2,808
-	-	-	-	-	-	-	-	-	-	165
<u>2,988</u>	<u>34,038</u>	<u>76,764</u>	<u>-</u>	<u>8,945</u>	<u>5,300</u>	<u>-</u>	<u>3,918</u>	<u>362,481</u>	<u>-</u>	<u>534,214</u>
<u>3,518</u>	<u>382</u>	<u>15,010</u>	<u>14</u>	<u>-</u>	<u>-</u>	<u>956</u>	<u>2,199</u>	<u>-</u>	<u>1,562</u>	<u>49,832</u>
<u>7,888</u>	<u>35,990</u>	<u>99,097</u>	<u>15</u>	<u>10,394</u>	<u>6,096</u>	<u>1,000</u>	<u>6,967</u>	<u>383,369</u>	<u>1,705</u>	<u>632,267</u>
31,289	22,890	67,457	(4)	50,608	20,850	2,287	13,258	41,133	18,057	512,119
(579)	4,069	9,068	1	1,201	447	842	1,853	(1,830)	96	26,082
<u>30,710</u>	<u>26,959</u>	<u>76,525</u>	<u>(3)</u>	<u>51,809</u>	<u>21,297</u>	<u>3,129</u>	<u>15,111</u>	<u>39,303</u>	<u>18,153</u>	<u>538,201</u>

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Statistical Section

Irvine Ranch Water District
Fiscal Year Ended June 30, 2007

This section of the Irvine Ranch Water District's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the District's overall financial health.

Financial Trends Schedules – These schedules contain trend information to help the reader understand how the District's financial performance and well-being have changed over time.

- Net Assets
- Changes in Net Assets

Revenue Capacity Schedules – These schedules contain information to help the reader assess the factors affecting the District's ability to generate its property and sales taxes.

- Water Sold by Type of Customer
- Water Rates
- Water Customers
- Sewer Rates
- Sewer Customers
- Ad Valorem Property Tax Rates
- Assessed Value and Estimated Actual Value of Taxable Property
- Direct and Overlapping Property Tax Rates
- Direct and Overlapping Debt
- Principal Property Taxpayers
- Property Tax Collections/Delinquency

Debt Capacity Schedules – These schedule present information to help the reader assess the affordability of the District's current levels of outstanding debt and the District's ability to issues additional debt in the future.

- Outstanding General Obligation Debt by Improvement District
- Outstanding Debt by Type
- Ratios of Outstanding Debt to Assessed Values
- Ratios of Annual Debt Service to Total General Expenditures
- Debt Service Coverage

Demographic and Economic Information – These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place and to help make comparisons over time and with other governments.

- Demographic and Economic Statistics
- Principal Employers
- Full-Time and Part-Time Employees of IRWD

Operating Information – These schedules contain information about the District's operations and resources to help the reader understand how the District's financial information relates to the services the District provides and the activities it performs.

- Operating Indicators – Connections
- Operating Indicators – New Connections
- Operating Indicators – Average Monthly Usage
- Capital Asset Statistics

Irvine Ranch Water District
 Net Assets
 For the Past Five Fiscal Years
 (in millions)

	Fiscal Year				
	2003	2004	2005	2006	2007
Assets					
Current & other assets	\$ 1,447.9	1,327.1	1,250.6	1,162.1	1,088.9
Capital assets	<u>902.1</u>	<u>950.7</u>	<u>1,017.4</u>	<u>1,111.1</u>	<u>1,224.3</u>
Total assets	2,350.0	2,277.8	2,268.0	2,273.2	2,313.2
Liabilities					
Current and other liabilities	79.4	78.0	82.8	91.5	95.3
Long-term debt outstanding	<u>1,153.2</u>	<u>1,109.1</u>	<u>1,058.6</u>	<u>1,068.8</u>	<u>1,022.1</u>
Total liabilities	1,232.6	1,187.1	1,141.4	1,160.3	1,117.4
Net assets					
Invested in capital assets, net of related debt	598.9	648.0	730.2	791.0	927.6
Restricted for water services	324.1	298.1	280.4	231.2	229.2
Restricted for sewer services	<u>194.4</u>	<u>144.6</u>	<u>116.0</u>	<u>90.6</u>	<u>38.9</u>
Total net assets	<u>\$ 1,117.4</u>	<u>1,090.7</u>	<u>1,126.6</u>	<u>1,112.8</u>	<u>1,195.7</u>

Source: IRWD Basic Financial Statements

IRWD implemented GASB 34 for the fiscal year ended June 30, 2003. Information prior to the implementation of GASB 34 is not available in comparable formats.

Irvine Ranch Water District
 Changes in Net Assets
 For the Past Four Fiscal Years
 (in thousands)

	Fiscal Year			
	2004	2005	2006	2007
Operating Revenues				
Water sales and service charges	31,700	33,105	39,256	45,138
Sewer service charges	23,346	24,622	29,248	37,649
Total operating revenues	<u>55,046</u>	<u>57,727</u>	<u>68,504</u>	<u>82,787</u>
Operating Expenses				
Water				
Water services	26,139	25,198	29,813	33,281
General and administrative	7,035	7,308	8,625	10,267
Customer accounts	1,384	1,446	1,572	1,698
Sewer				
Sewer services	19,052	19,055	18,480	23,439
General and administrative	5,266	5,571	5,556	6,328
Customer accounts	923	964	1,048	1,131
Depreciation	25,091	26,395	27,135	28,449
Total operating expenses	<u>84,890</u>	<u>85,937</u>	<u>92,229</u>	<u>104,593</u>
Operating income (loss)	<u>(29,844)</u>	<u>(28,210)</u>	<u>(23,725)</u>	<u>(21,806)</u>
Nonoperating Revenues (Expenses)				
Property taxes	15,304	7,725	15,237	30,667
Investment income	7,700	7,695	9,115	10,768
Increase (decrease) in fair value of investments	(56,999)	8,864	(53,542)	(3,996)
JPA investment income	63,741	64,870	63,427	61,793
Gain (loss) on sale of capital assets	2,283	-	-	-
Real estate income	8,460	9,076	9,118	9,483
Other income	7,475	9,753	8,494	10,457
Interest expense	(3,929)	(5,092)	(9,286)	(12,762)
JPA interest expense	(63,014)	(61,593)	(60,060)	(58,404)
Real estate expense	(3,919)	(4,131)	(4,493)	(4,562)
Other expenses	(1,526)	(430)	(666)	(883)
Total nonoperating revenue (expenses)	<u>(24,424)</u>	<u>36,737</u>	<u>(22,656)</u>	<u>42,561</u>
Income (loss) before capital contributions	(54,268)	8,527	(46,381)	20,755
Contributed capital assets	27,610	27,374	32,525	52,672
Increase (decrease) in net assets	<u>(26,658)</u>	<u>35,901</u>	<u>(13,856)</u>	<u>73,427</u>
Net Assets at beginning of year	1,117,412	1,090,754	1,126,655	1,112,799
SCWD Retained Earnings at 6/30/06				9,535
Net assets at end of year	<u>\$1,090,754</u>	<u>\$1,126,655</u>	<u>\$1,112,799</u>	<u>\$1,195,761</u>

Source: IRWD Basic Financial Statements

IRWD implemented GASB 34 for the fiscal year ended June 30, 2003. Information prior to the implementation of GASB 34 is not available in comparable formats.

Irvine Ranch Water District
Water Sold By Type of Customer (in Acre Feet)
For the Past Ten Fiscal Years

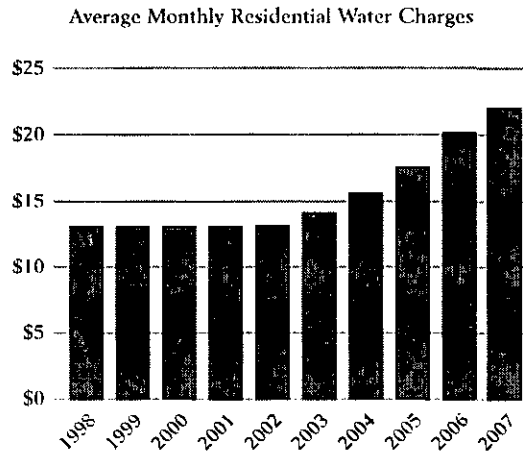
	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Residential	19,157	20,580	22,019	26,354	29,172	29,728	31,136	30,681	31,514	34,097
Commercial	6,415	6,433	6,284	6,899	7,091	7,218	7,544	7,602	8,037	8,710
Industrial	6,719	6,954	6,816	6,925	6,325	6,237	6,222	6,047	5,714	5,438
Public Authority	3,968	3,614	2,485	2,447	2,475	2,490	2,601	2,842	2,795	2,474
Construction & Temporary	1,060	776	944	925	1,347	1,074	931	489	790	696
Treated - Landscape Irrigation	3,094	3,617	4,037	4,518	5,423	5,051	5,464	4,953	5,322	6,249
Treated - Agricultural	1,607	1,744	2,036	1,550	2,042	1,512	1,709	1,177	1,018	1,009
Untreated - Agricultural	9,343	10,759	13,021	8,552	8,574	8,320	7,563	5,676	6,724	6,696
Recycled - Landscape/ Agricultural	<u>11,803</u>	<u>13,466</u>	<u>16,883</u>	<u>16,831</u>	<u>19,257</u>	<u>17,108</u>	<u>19,188</u>	<u>18,024</u>	<u>19,059</u>	<u>24,008</u>
TOTAL	63,166	67,944	74,525	75,001	81,705	78,737	82,358	77,491	80,974	89,377

Irvine Ranch Water District
Water Rates
For the Past Ten Fiscal Years

<u>Fiscal Year</u>	<u>Fixed Service Charge</u>	<u>Commodity Rate (per ccf)</u>	<u>Average monthly residential charge</u>
1998	\$2.90	\$0.64	\$13.14
1999	\$2.90	\$0.64	\$13.14
2000	\$2.90	\$0.64	\$13.14
2001	\$2.90	\$0.64	\$13.14
2002	\$2.90	\$0.64	\$13.14
2003	\$3.00	\$0.69	\$14.14
2004	\$3.65	\$0.75	\$15.87
2005	\$3.90	\$0.83	\$17.56
2006	\$5.45	\$0.88	\$20.01
2007	\$6.75	\$0.91	\$21.85

The water charge to the average residential customer is based upon an average of 18 ccf per month. The first 8 ccf are at the District's low volume rate, which is \$0.16 less than the commodity rate.

Source: IRWD



Irvine Ranch Water District
 Schedule of Largest Water Customers
 Fiscal Year Ended June 30, 2007

<u>Customer Name</u>	<u>Total Paid</u>	<u>Percentage of Water Sales Revenues</u>
1. Irvine Apartment Communities(1)	\$2,665,191	5.90%
2. The Irvine Company - Agricultural Division(1)	1,872,642	4.15%
3. City of Irvine	1,656,406	3.67%
4. University of California - Irvine	1,123,757	2.49%
5. Jazz Semiconductor	593,681	1.32%
6. The Irvine Company - Spectrum Office(1)	574,185	1.27%
7. County of Orange	435,588	0.96%
8. Woodbridge Village Association	424,614	0.94%
9. Hines Nurseries	404,068	0.90%
10. Irvine Unified School District	402,702	0.89%
11. The Irvine Company - Commercial Division(1)	401,639	0.89%
12. B Braun Medical Inc	401,234	0.89%
13. City of Tustin	308,973	0.68%
14. Crystal Cove community	261,584	0.58%
15. Caltrans District 12	243,271	0.54%
Total	<u>\$11,769,535</u>	<u>26.07%</u>

Source: Irvine Ranch Water District

Information for Largest Water Customers is not available for 1998 for comparison purposes.

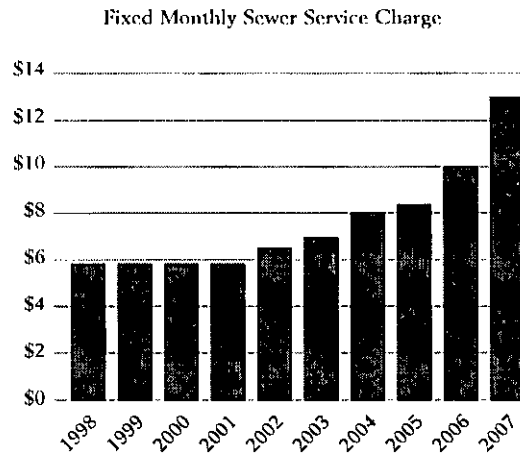
Note: (1) Various divisions within The Irvine Company account for total sales of \$4.4 million, or 11.2% of total water sales revenues.

Irvine Ranch Water District
Sewer Rates
For the Past Ten Fiscal Years

<u>Fiscal Year</u>	<u>Fixed Monthly Service Charge</u>
1998	\$ 5.90
1999	5.90
2000	5.90
2001	5.90
2002	6.60
2003	6.95
2004	8.05
2005	8.35
2006	10.00
2007	13.05

Source: IRWD

Beginning in FY 2006-07, the IRWD Board of Directors instituted a \$2.65 replacement surcharge to fund aging infrastructure replacement and refurbishment. This is included in the sewer fixed charge.



Irvine Ranch Water District
 Schedule of Largest Sewer Customers
 Fiscal Year Ended June 30, 2007

<u>Customer Name</u>	<u>Total Paid</u>	<u>Percentage of Water Sales Revenues</u>
1. Irvine Apartment Communities	\$2,331,263	6.29%
2. University of California - Irvine	672,665	1.81%
3. Royal Carpet Mills	277,107	0.75%
4. Allergan Sales, LLC	182,223	0.49%
5. The Irvine Company - Spectrum Office	179,463	0.48%
6. Sicor Pharmaceuticals	176,465	0.48%
7. ERP Operating LP	156,238	0.42%
8. Airport Complex	130,196	0.35%
9. Maguire Properties	93,350	0.25%
10. Maruchan Inc	92,508	0.25%
11. Hyatt Regency - Irvine	82,089	0.22%
12. ST John Knits	81,837	0.22%
13. Oakley Technical Center	78,216	0.21%
14. Hillsboro Properties	77,360	0.21%
15. Watermarke Community Association	<u>63,736</u>	<u>0.17%</u>
Total	<u><u>\$4,674,716</u></u>	<u><u>12.60%</u></u>

Source: Irvine Ranch Water District

Information for Largest Sewer Customers is not available for 1998 for comparison purposes.

Irvine Ranch Water District
Ad Valorem Tax Rate
For the Past Ten Fiscal Years

Improvement District	1998	1999	2000	2001	2002
113 (1)	N/A	N/A	N/A	N/A	N/A
120	0.00001	0.00001	0.00001	0.00001	0.00001
121	0.00001	0.00001	0.00001	0.00001	0.00001
130	0.00001	0.00001	0.00001	0.00001	0.00001
135 (2)	N/A	N/A	N/A	0.074599	0.0727
140	0.02270	0.00001	0.00001	0.00001	0.00001
150	0.08838	0.00001	0.00001	0.00001	0.00001
160	0.03044	0.00001	0.00001	0.00001	0.00001
161	0.00034	0.00001	0.00001	0.00001	0.00001
182	0.08840	0.00001	0.00001	0.00001	0.00001
184	N/A	N/A	N/A	N/A	N/A
186	0.21009	0.00001	0.00001	0.00001	0.00001
188	0.00001	5.07365	0.00001	0.00001	0.00001
190	2.65738	0.00001	0.00001	0.00001	0.00001
210	0.00001	0.00001	0.00001	0.00001	0.00001
213 (1)	N/A	N/A	N/A	N/A	N/A
220	0.00001	0.00001	0.00001	0.00001	0.00001
221	0.00001	0.00001	0.00001	0.00001	0.00001
230	0.00125	0.00001	0.00001	0.00001	0.00001
235 (2)	N/A	N/A	N/A	0.04999	0.003581
240	0.02093	0.00001	0.00001	0.00001	0.00001
250	0.11310	0.00001	0.00001	0.00001	0.00001
260	N/A	N/A	N/A	N/A	N/A
261	0.00504	0.00001	0.00001	0.00001	0.00001
282	0.01179	0.00001	0.00001	0.00001	0.00001
284	N/A	N/A	N/A	N/A	N/A
290	2.87108	0.00001	0.00001	0.00001	0.00001

Source: Irvine Ranch Water District

Notes:

(1) Improvement Districts 113 and 213 encompass the former Tustin Marine Base.

(2) The Los Alisos Water District and the District consolidated on December 31, 2000 adding Improvement Districts 135 and 235.

Irvine Ranch Water District
 Ad Valorem Tax Rate
 For the Past Ten Fiscal Years
 (Continued)

Improvement District	2003	2004	2005	2006	2007
113					
120	0.00001	0.00001	0.00001	0.01168	0.01168
121	0.00001	0.00001	0.00001	0.00001	0.00001
130	0.00001	0.00001	0.00001	0.00001	0.00001
135	0.04264	0.01500	0.00001	0.00001	0.00842
140	0.00001	0.00001	0.00001	0.00001	0.00001
150	0.00001	0.00001	0.00001	0.00001	0.00001
160	0.00001	0.00001	0.00001	0.01168	0.01168
161	0.00001	0.00001	0.00001	0.00001	0.00001
182	0.00001	0.00001	0.00001	0.00808	0.00808
184	N/A	N/A	N/A	N/A	0.00001
186	0.00001	0.00001	0.00001	0.02051	0.02051
188	0.00001	0.00001	0.00001	0.02051	0.02051
190	0.00001	0.00001	0.00001	0.00001	0.00001
210	0.00001	0.00001	0.00001	0.00001	0.00001
213	N/A	N/A	N/A	N/A	0.14093
220	0.00001	0.00001	0.00001	0.01000	0.01000
221	0.00001	0.00001	0.00001	0.00001	0.00001
230	0.00001	0.00001	0.00001	0.01995	0.01995
235	0.00936	0.00001	0.00001	0.00001	0.00532
240	0.00001	0.00001	0.00001	0.02168	0.02168
250	0.00001	0.00001	0.00001	0.02602	0.03199
260	N/A	N/A	N/A	N/A	0.02030
261	0.00001	0.00001	0.00001	0.00001	0.00001
282	0.00001	0.00001	0.00001	0.01280	0.01280
284	N/A	N/A	N/A	N/A	0.00001
290	0.00001	0.00001	0.00001	0.01995	0.01995

Irvine Ranch Water District
Assessed Valuation of Taxable Property and 1% Property Tax Revenue
For the Past Ten Fiscal Years
(in thousands)

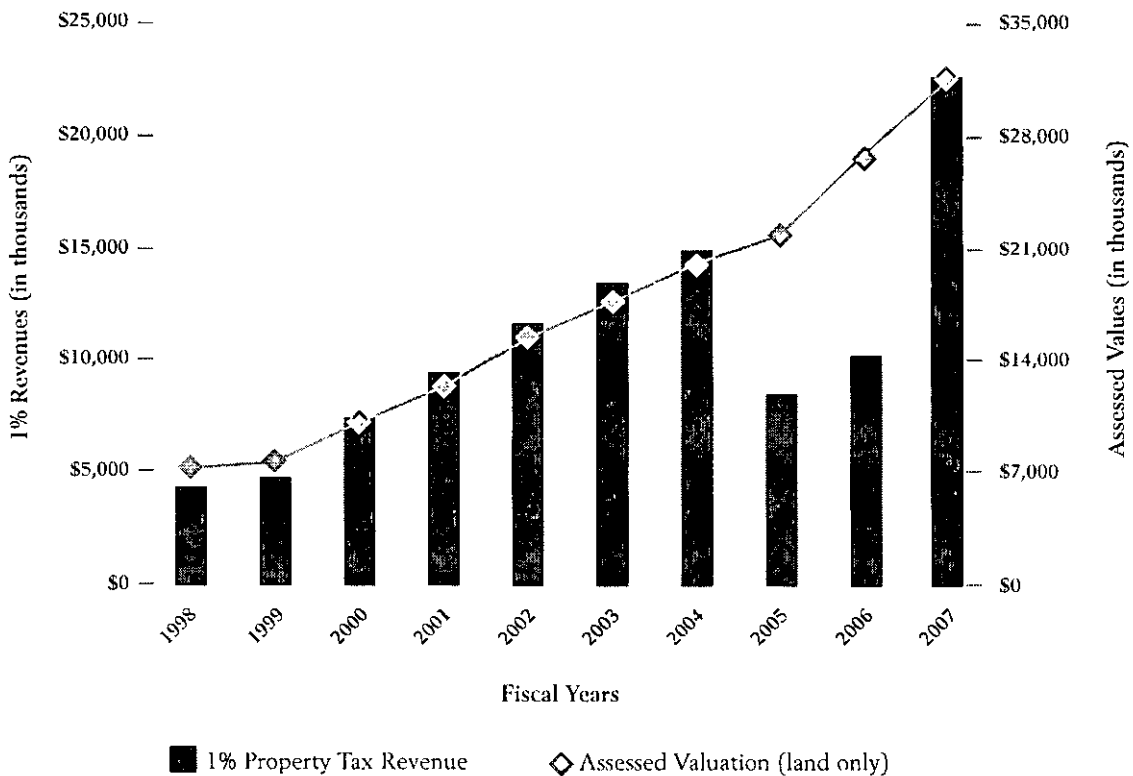
Fiscal Year Ended	Assessed Valuation (land only) (3)	1 % Property Tax Revenue
1998	\$8,009,959	\$4,331
1999	8,665,303	4,963
2000	10,602,106	7,348
2001	12,058,755	9,557
2002 (1)	15,243,031	11,645
2003	16,951,715	13,250
2004	19,117,325	14,891
2005	22,101,916	8,534
2006 (2)	25,869,944	10,197
2007	31,378,053	22,462

Source: Orange County Auditor-Controller and Orange County Tax Collector.

- Notes: (1) The Los Alisos Water District and the District consolidated on December 31, 2000.
(2) The IRWD state mandated contribution to ERAF for FY 2004-05 and FY 2005-06 was \$9.7 million per year.
(3) Estimated market values for the land-only Assessed Values are not available.

In 1978, the voters of the State of California passed Proposition 13 which limited property taxes to a total maximum rate of 1% based upon the assessed value of the property being taxed. Each year, the assessed value of property may be increased by an "inflation factor" (limited to a maximum increase of 2%). With few exceptions, property is only reassessed at the time that it is sold to a new owner. At that point, the new assessed value is reassessed at the purchase price of the property sold.

1% Revenues and Assessed Values



Irvine Ranch Water District
 Direct and Overlapping Tax Rates
 FY 2006 - 07

Direct Rate:

Irvine Ranch Water District I.D. No. 1	0.00001
Irvine Ranch Water District I.D. No. 2	0.01000
Irvine Ranch Water District I.D. No. 3	0.01995
Irvine Ranch Water District I.D. No. 102	0.01168
Irvine Ranch Water District I.D. No. 103	0.00001
Irvine Ranch Water District I.D. No. 105	0.00001
Irvine Ranch Water District I.D. No. 106	0.01168
Irvine Ranch Water District I.D. No. 109	0.00001
Irvine Ranch Water District I.D. No. 113	0.01920
Irvine Ranch Water District I.D. No. 121	0.00001
Irvine Ranch Water District I.D. No. 140	0.00001
Irvine Ranch Water District I.D. No. 161	0.00001
Irvine Ranch Water District I.D. No. 182	0.00808
Irvine Ranch Water District I.D. No. 186	0.02051
Irvine Ranch Water District I.D. No. 188	0.02051
Irvine Ranch Water District I.D. No. 206	0.02030
Irvine Ranch Water District I.D. No. 213	0.14093
Irvine Ranch Water District I.D. No. 221	0.00001
Irvine Ranch Water District I.D. No. 240	0.02168
Irvine Ranch Water District I.D. No. 250	0.03199
Irvine Ranch Water District I.D. No. 252	0.00001
Irvine Ranch Water District I.D. No. 261	0.00001
Irvine Ranch Water District I.D. No. 282	0.01280
Irvine Ranch Water District I.D. No. 284	0.00001
Irvine Ranch Water District I.D. No. 290	0.01995
135 (Formerly Los Alisos Water District)	0.00842
235 (Formerly Los Alisos Water District)	0.00532

Overlapping Rates:

School Districts:

Coast Community College District	0.01599
Rancho Santiago Community College District	0.01911
Laguna Beach Unified School District	0.01720
Newport Mesa Unified School District	0.01887
Saddleback Valley Unified School District	0.03694
Santa Ana Unified School District	0.03915
Tustin Unified School District SFID 2002-1	0.00232

Cities:

Laguna Beach	0.01789
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Source: California Municipal Statistics, Inc.

Irvine Ranch Water District
Direct and Overlapping Debt
FY 2006 - 07

2006-07 Land Only Assessed Valuation: \$31,602,039,383

<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>Total Debt</u> <u>6/30/07</u>	<u>% Applicable (1)</u>	<u>District's Share of</u> <u>Debt 6/30/07</u>
Orange County Teeter Plan Obligations	\$123,725,000	17.507%	\$ 21,660,536
Metropolitan Water District	359,115,000	3.673	13,190,294
Coast Community College District	353,203,867	5.050	17,836,795
Rancho Santiago Community College District	324,638,495	16.319	52,977,756
Saddleback Valley Unified School District	149,760,000	33.665	50,416,704
Santa Ana Unified School District	130,951,207	35.725	46,782,319
Other Unified School Districts	231,759,773	Various	31,526,033
City of Laguna Beach	7,150,000	0.031	2,217
Irvine Ranch Water District Improvement Districts	201,594,000	100.	201,594,000
Irvine Unified School District Community Facilities District No. 86-1	86,745,000	100.	86,745,000
Irvine Unified School District Community Facilities District No. 01-1	101,525,000	100.	101,525,000
Other Irvine Unified School District Community Facilities Districts	195,408,332	100.	195,408,332
Tustin Unified School District Community Facilities Districts	234,500,345	100.	234,500,345
Orange County Community Facilities Districts	104,756,578	100.	104,756,578
Other Community Facilities Districts	117,535,000	Various	102,804,197
City of Irvine 1915 Act Bonds	838,189,169	100.	878,189,169
City of Tustin 1915 Act Bonds	55,862,000	100.	55,862,000
Other 1915 Act Bonds	124,978,296	Various	<u>121,803,864</u>
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT			\$2,317,581,139
DIRECT AND OVERLAPPING GENERAL FUND DEBT:			
Orange County General Fund Obligations	\$597,550,000	17.507%	\$104,613,079
Orange County Pension Obligations	89,893,078	17.507	15,737,581
Orange County Board of Education Certificates of Participation	19,720,000	17.507	3,452,380
Orange County Transit District Authority	1,235,000	17.507	216,211
Municipal Water District of Orange County Water Facilities Corporation	20,800,000	20.760	4,318,080
South Orange County Community College District Certificates of Participation	36,910,000	33.183	12,247,845
Santa Ana Unified School District Certificates of Participation	66,856,251	35.725	23,884,396
Other School District Certificates of Participation	59,420,000	Various	5,248,849
City of Irvine General Fund Obligations	30,945,000	99.980	30,938,811
Other City General Fund Obligations	212,430,236	Various	16,521,675
Orange County Sanitation District Certificates of Participation	117,705,000	21.543	23,357,188
Orange County Fire Authority	13,570,000	29.632	4,021,062
Irvine Ranch Water District Certificates of Participation	41,600,000	100.	<u>41,600,000</u> (2)
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT			\$286,157,157
Less: MWDOC Water Facilities Corporation (100% self-supporting)			4,318,080
Other self-supporting obligations			<u>7,998,576</u>
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT			\$273,840,501
GROSS COMBINED TOTAL DEBT			\$2,603,738,296 (3)
NET COMBINED TOTAL DEBT			\$2,591,421,640

- (1) Percentage of overlapping agency's assessed valuation located within boundaries of the district based on redevelopment adjusted all property assessed valuation of \$59,638,605,413.
- (2) Excludes 2002 Certificates of Participation supported by enterprise revenue.
- (3) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to Land Only Assessed Valuation:

Direct Debt (\$201,594,000)	0.64%
Total Direct and Overlapping Tax and Assessment Debt	7.33%

Ratios to Adjusted All Property Assessed Valuation:

Combined Direct Debt (\$243,194,000)	0.41%
Gross Combined Total Debt	4.37%
Net Combined Total Debt	4.35%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/07: \$0

Irvine Ranch Water District
 Schedule of the Ten Largest Property Taxpayers
 June 30, 2007

<u>Property Owner's Name</u>	<u>Type of Business</u>	<u>Assessed Valuation of Property, including Land & Improvements</u>
The Irvine Company	Developer/Real Estate	\$ 3,375,233,980
Irvine Apartment Communities	Real Estate	1,287,335,978
Heritage Fields El Toro	Real Estate Developer	830,988,066
Maguire Properties Park	Real Estate Developer	629,705,401
Koll Center Irvine	Commercial Developer	206,969,469
B Braun Medical Inc.	Bio-Medical Manufacturing	183,816,840
Lakeshore Properties	Real Estate	166,642,902
Century Centre LLC	Real Estate	136,884,000
Lennar Central Park LLC	Real Estate	104,479,362
2040 Main LLC	Real Estate	101,632,318
		<u>\$ 7,023,688,316</u>

Source: City of Irvine Comprehensive Annual Financial Report (June 30, 2006)

*Data was not yet available for FY2006/07 from the City of Irvine.
 The City of Irvine is only a part of the IRWD service area.
 Information for Largest Property Taxpayers is not available for 1998 for comparison purposes.*

Irvine Ranch Water District
Summary Of Property Tax Collections/Delinquency
For the Past Ten Fiscal Years

Fiscal Year Ended	IRWD Estimated Levy During Fiscal Year		Collected During Fiscal Year		Percentage Collected		Amount of Levy Collected in Subsequent Periods	
	1 Percent (1)	General (2)	1 Percent	General (3)	1 Percent	General	1 Percent	General
1998	N/A	N/A	4,330,695	7,254,097	N/A	N/A	179,912	507,722
1999	N/A	N/A	4,717,337	1,974,168	N/A	N/A	245,915	1,354,186
2000	N/A	N/A	6,937,879	57,571	N/A	N/A	410,329	23,264
2001	N/A	N/A	9,032,961	1,572,406	N/A	N/A	523,698	127,435
2002	9,832,977	2,082,253	10,976,075	2,381,844	111.63%	114.39%	669,174	157,703
2003	12,756,500	1,281,909	12,459,640	1,352,950	97.67%	105.54%	790,125	156,184
2004	13,541,700	682,045	13,932,804	979,552	102.89%	143.62%	958,597	11,033
2005	7,750,200	403,151	7,404,859	448,835	95.54%	111.33%	1,129,009	27,285
2006	7,965,300	3,081,122	8,755,621	5,038,833	109.92%	163.54%	1,441,127	149,874
2007	19,419,300	5,050,938	21,368,075	7,869,904	110.04%	155.81%	1,093,740	541,024
Total	<u>\$71,265,977</u>	<u>\$12,581,418</u>	<u>\$99,915,946</u>	<u>\$28,930,159</u>			<u>\$7,441,625</u>	<u>\$3,055,710</u>

Source: County of Orange Tax Ledger

Notes:

- (1) The estimated levy for one percent revenue is generated internally and it is based on prior year receipts and developer growth projections.
- (2) The estimated levy for G.O. tax receipts is based on the county's assessed value projection multiplied by the tax rate assessed within each improvement district.
- (3) The General column for Collected tax receipts includes an unbudgeted utility tax revenue from improvement districts 190/290 that adds approximately \$400K per year.
- (4) Percentage collections are higher than 100% due to levies being estimated. See notes 1 and 2.

Irvine Ranch Water District
Outstanding General Obligation Bonds by Improvement District

Improvement District	General Obligation Bonds Authorized	General Obligation Bonds Issued	Remaining Unissued General Obligation Bonds Authorized	Amount Outstanding as of June 30, 2006
113	\$ 25,770,000	\$ 1,500,000	\$ 24,270,000	\$ 1,500,000
120	26,805,000	26,805,000	-	974,700
121	35,437,000	11,982,000	23,455,000	2,662,800
130	36,471,000	25,220,000	11,251,000	918,500
135	20,010,000	20,008,000	2,000	4,968,000
140	117,130,000	30,526,000	86,604,000	15,086,800
150	188,734,000	87,677,000	101,057,000	37,058,800
160	22,895,000	22,569,000	326,000	2,883,500
161	40,786,000	1,833,000	38,953,000	1,149,700
182	74,653,000	7,710,000	66,943,000	3,960,000
184	79,065,000	-	79,065,000	-
186	19,266,000	5,633,000	13,633,000	2,551,400
188	8,174,000	2,957,000	5,217,000	1,397,700
190	73,994,000	12,941,000	61,053,000	2,542,200
Total	\$ 769,190,000	\$ 257,361,000	\$ 511,829,000	\$ 77,654,100
210	\$2,000,000	\$2,000,000	\$-	\$-
213	87,648,000	11,100,000	76,548,000	11,100,000
220	30,316,000	28,410,000	1,906,000	-
221	50,452,000	28,954,000	21,498,000	6,007,700
230	86,942,000	20,500,000	66,442,000	1,328,200
235	15,724,000	15,723,000	1,000	2,988,000
240	117,273,000	43,977,000	73,296,000	30,462,100
250	286,727,000	100,168,000	186,559,000	57,946,500
260	69,665,000	17,917,000	51,748,000	2,555,100
261	43,364,000	2,379,000	40,985,000	1,183,500
282	59,101,000	5,000,000	54,101,000	2,500,000
284	92,590,000	7,650,000	84,940,000	3,500,000
286	40,531,000	40,531,000	-	-
288	8,977,000	-	8,977,000	-
290	78,231,000	12,022,000	66,209,000	4,375,000
Total	\$1,069,541,000	\$ 295,800,000	\$ 773,741,000	\$ 123,946,100
	\$1,838,731,000	\$ 553,161,000	\$1,285,570,000	\$ 201,600,200

Irvine Ranch Water District
 Outstanding Debt by Type (1)
 For the Past Ten Fiscal Years

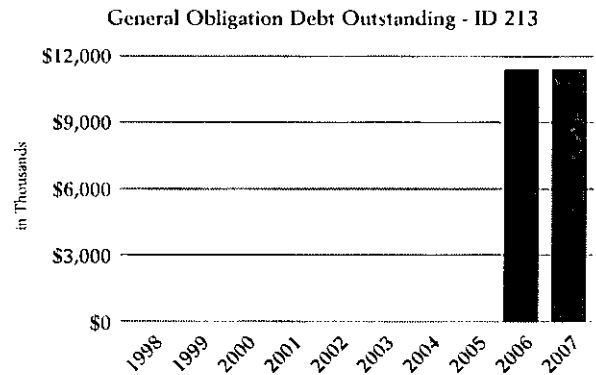
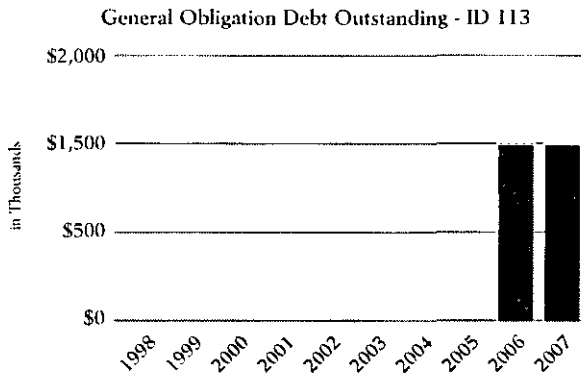
Fiscal Year Ended	Total Service Connections (2)	General Obligation Bonds	GO Debt per Connection	Certificates of Participation	COPS Debt per Connection	JPA Revenue Bonds	JPA Debt per Connection	Total Debt	Total Debt per Connection
1998	112,789	\$312,878,000	\$2,774	\$ 57,500,000	\$510	\$ 868,650,000	\$7,702	\$1,239,028,000	\$10,985
1999	118,233	297,867,000	2,519	56,000,000	474	850,855,000	7,196	1,204,722,000	10,189
2000	123,361	282,153,000	2,287	56,002,000	454	843,035,000	6,834	1,181,190,000	9,575
2001	152,397	269,542,000	1,769	54,400,000	357	834,750,000	5,477	1,158,692,000	7,603
2002	157,736	249,981,000	1,585	52,700,000	334	825,966,000	5,236	1,128,647,000	7,155
2003	161,450	230,124,368	1,425	120,800,000	748	831,833,622	5,152	1,182,757,990	7,326
2004	169,100	209,227,990	1,237	118,800,000	703	813,397,384	4,810	1,141,425,374	6,750
2005	172,440	187,396,610	1,087	116,600,000	676	793,611,146	4,602	1,097,607,756	6,365
2006	177,141	224,585,230	1,268	114,200,000	645	772,359,906	4,360	1,111,145,136	6,273
2007	181,882	201,585,230	1,108	111,600,000	614	749,513,668	4,121	1,062,698,898	5,843

Notes:

- (1) More detail about the District's long-term liabilities can be found at Note 8 to the Financial Statements.
- (2) Per Capita income information for the Irvine Ranch Water District is not readily available. Accordingly, the District presents this schedule by total service connections.
- (3) Debt balances are as of June 30 for each fiscal year.

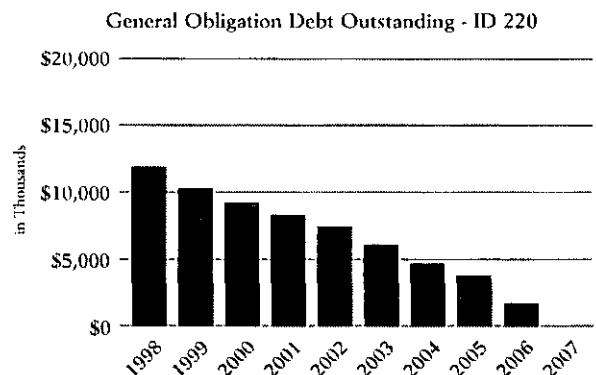
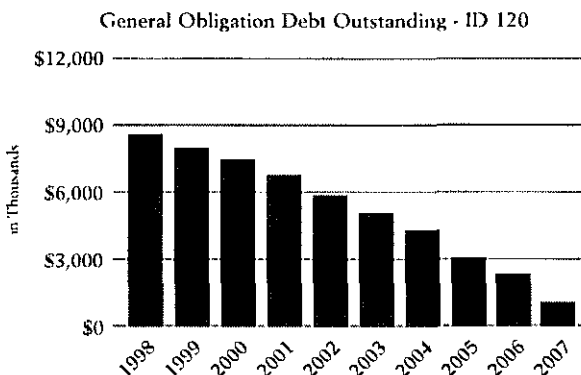
Irvine Ranch Water District Ratio of General Obligation Debt to Assessed Values For the Past Ten Fiscal Years

Fiscal Year Ended	Improvement District 113			Improvement District 213		
	Assessed Valuation	General Obligation Debt Outstanding	General Obligation Debt to Assessed Valuation	Assessed Valuation	General Obligation Debt Outstanding	General Obligation Debt to Assessed Valuation
1998	\$ -	-	n/a	\$ -	-	n/a
1999	-	-	n/a	-	-	n/a
2000	-	-	n/a	-	-	n/a
2001	-	-	n/a	-	-	n/a
2002	-	-	n/a	-	-	n/a
2003	-	-	n/a	-	-	n/a
2004	-	-	n/a	-	-	n/a
2005	-	-	n/a	-	-	n/a
2006	276,019,505	1,500,000	0.00543440	276,019,505	11,100,000	0.04021455
2007	583,904,580	1,500,000	0.00256891	583,904,580	11,100,000	0.01900996



	Improvement District 120		
1998	1,390,595,513	8,838,998	0.00635627
1999	1,545,542,276	8,116,418	0.00525150
2000	1,754,578,139	7,376,950	0.00420440
2001	2,035,540,701	6,591,160	0.00323804
2002	2,263,025,358	5,764,953	0.00254745
2003	2,460,176,613	4,915,952	0.00199821
2004	2,655,750,823	4,014,721	0.00151171
2005	3,048,171,194	3,073,075	0.00100817
2006	3,296,099,817	2,079,199	0.00063081
2007	3,716,412,058	974,678	0.00026226

	Improvement District 220		
1998	\$1,766,479,405	11,745,358	0.00664902
1999	1,944,758,366	10,661,171	0.00548200
2000	2,202,113,184	9,531,810	0.00432848
2001	2,522,353,571	8,357,274	0.00331328
2002	2,789,540,948	7,137,564	0.00255869
2003	3,025,751,360	5,872,679	0.00194090
2004	3,277,646,727	4,562,620	0.00139204
2005	3,712,898,262	2,958,274	0.00079676
2006	4,084,154,528	1,557,866	0.00038144
2007	4,601,691,594	-	-

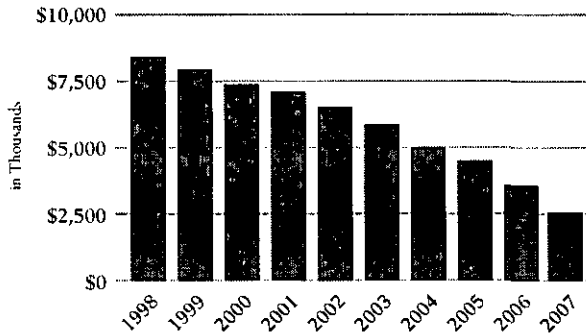


Source: Irvine Ranch Water District and the County of Orange Auditor Controller. Personal income statistics are not readily available for the District's service area. Accordingly this schedule is presented with assessed values.

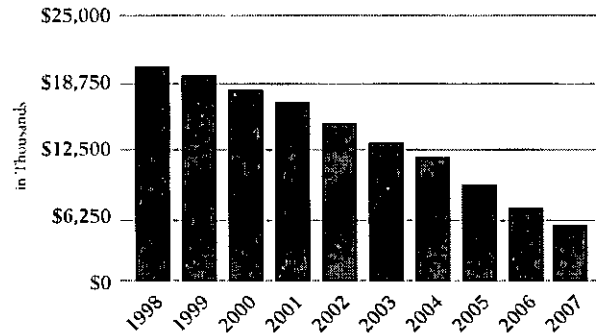
Irvine Ranch Water District
 Ratio of General Obligation Debt to Assessed Values
 For the Past Ten Fiscal Years
 (Continued)

Fiscal Year Ended	Assessed Valuation	General Obligation Debt Outstanding	General Obligation Debt to Assessed Valuation	Improvement District 121			Improvement District 221		
				Assessed Valuation	General Obligation Debt Outstanding	General Obligation Debt to Assessed Valuation	Assessed Valuation	General Obligation Debt Outstanding	General Obligation Debt to Assessed Valuation
1998	\$1,390,595,513	8,355,784	0.00600878	\$1,375,348,038	20,304,635	0.01476327			
1999	1,545,542,276	7,881,559	0.00509954	1,531,012,484	19,104,561	0.01247838			
2000	1,754,578,139	7,386,317	0.00420974	1,739,335,514	17,830,343	0.01025124			
2001	2,035,540,701	6,843,247	0.00336188	2,016,000,565	16,462,729	0.00816603			
2002	2,263,025,358	6,262,950	0.00276751	2,242,421,472	14,989,638	0.00668458			
2003	2,460,176,613	5,646,252	0.00229506	2,437,921,523	13,411,719	0.00550129			
2004	2,655,750,823	4,965,506	0.00186972	2,633,056,001	11,709,055	0.00444695			
2005	3,048,171,194	4,248,361	0.00139374	2,991,737,859	9,901,562	0.00330964			
2006	3,296,099,817	3,464,524	0.00105110	3,270,481,689	7,941,236	0.00242815			
2007	3,716,412,058	2,662,787	0.00071649	3,688,965,082	6,007,654	0.00162855			

General Obligation Debt Outstanding - ID 121

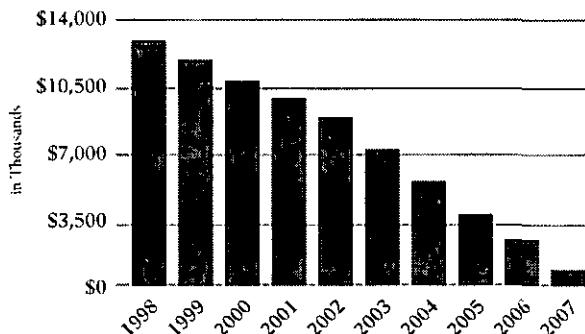


General Obligation Debt Outstanding - ID 221



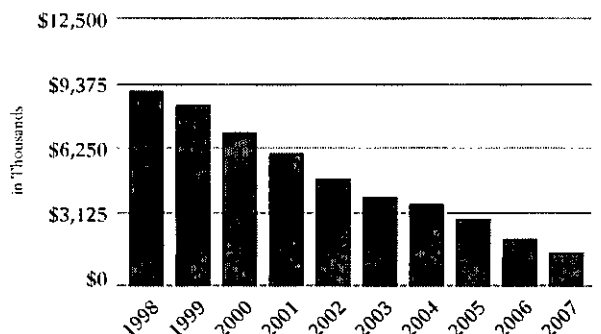
Improvement District 130			
1998	\$620,383,679	12,935,654	0.02085106
1999	655,353,530	11,791,497	0.01799257
2000	704,608,251	10,889,239	0.01545432
2001	753,167,611	9,933,170	0.01318853
2002	799,165,325	8,910,760	0.01115008
2003	887,679,877	7,319,316	0.00824545
2004	932,620,903	5,642,103	0.00604973
2005	1,049,255,231	4,140,763	0.00394638
2006	1,153,678,462	2,433,250	0.00210912
2007	1,489,017,966	918,505	0.00061685

General Obligation Debt Outstanding - ID 130



Improvement District 230			
1998	\$ 620,782,603	9,121,857	0.01469412
1999	655,760,431	8,437,744	0.01286711
2000	705,022,691	7,272,175	0.01031481
2001	753,590,339	6,069,088	0.00805356
2002	799,596,128	4,822,132	0.00603071
2003	888,086,748	4,195,847	0.00472459
2004	933,035,911	3,515,764	0.00376809
2005	1,049,677,986	2,803,128	0.00267046
2006	1,154,109,671	2,036,692	0.00176473
2007	1,492,117,118	1,328,210	0.00089015

General Obligation Debt Outstanding - ID 230

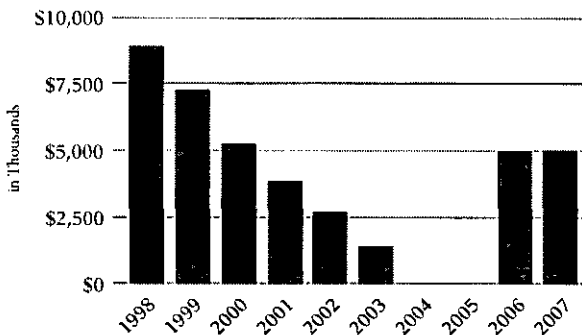


Source: Irvine Ranch Water District and the County of Orange Auditor Controller

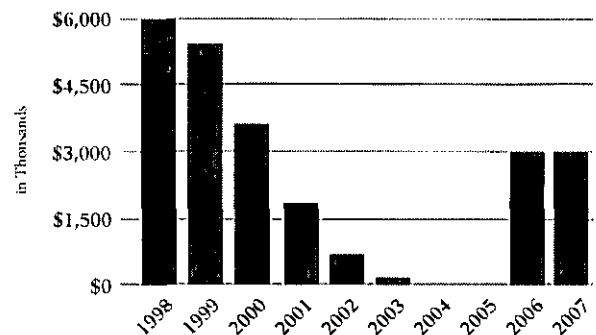
Irvine Ranch Water District
Ratio of General Obligation Debt to Assessed Values
For the Past Ten Fiscal Years
(Continued)

Fiscal Year Ended	Improvement District 135			Improvement District 235		
	Assessed Valuation	General Obligation Debt Outstanding	General Obligation Debt to Assessed Valuation	Assessed Valuation	General Obligation Debt Outstanding	General Obligation Debt to Assessed Valuation
1998	n/a	n/a	n/a	n/a	n/a	n/a
1999	n/a	n/a	n/a	n/a	n/a	n/a
2000	n/a	n/a	n/a	n/a	n/a	n/a
2001	1,548,328,641	3,850,000	0.00248655	1,548,328,641	1,930,000	0.00124651
2002	1,691,341,907	2,680,000	0.00158454	1,691,341,907	590,000	0.00034884
2003	1,861,970,430	1,440,000	0.00077337	1,861,970,430	65,000	0.00003491
2004	2,062,480,035	-	-	2,062,480,035	-	-
2005	2,279,958,176	-	-	2,279,958,176	-	-
2006	2,553,323,737	4,968,000	0.00194570	2,553,323,737	2,988,000	0.00117024
2007	2,898,277,302	4,968,000	0.00171412	2,898,277,302	2,988,000	0.00103096

General Obligation Debt Outstanding - ID 135



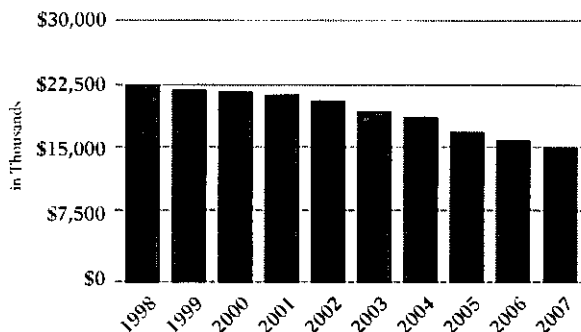
General Obligation Debt Outstanding - ID 235



Improvement District 140

Fiscal Year	Assessed Valuation	General Obligation Debt Outstanding	Ratio
1998	\$734,308,388	23,104,029	0.03146366
1999	861,419,916	22,402,613	0.02600661
2000	1,083,889,212	21,677,880	0.02000009
2001	1,342,232,777	20,896,457	0.01556843
2002	1,668,617,110	20,083,096	0.01203577
2003	1,982,470,064	19,187,818	0.00967874
2004	2,294,454,249	18,246,359	0.00795237
2005	2,719,982,105	17,253,705	0.00634332
2006	3,446,887,473	16,181,977	0.00469466
2007	4,140,693,955	15,086,812	0.00364355

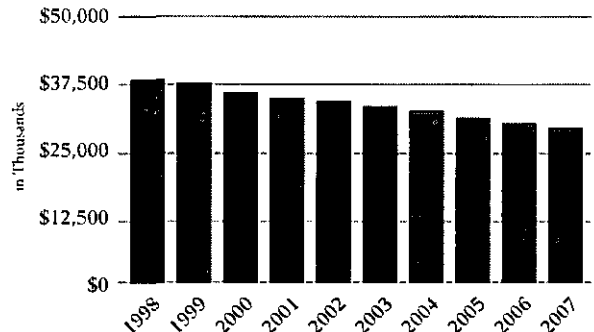
General Obligation Debt Outstanding - ID 140



Improvement District 240

Fiscal Year	Assessed Valuation	General Obligation Debt Outstanding	Ratio
1998	\$734,308,388	39,207,682	0.05339403
1999	861,419,916	38,427,436	0.04460941
2000	1,083,889,212	37,618,495	0.03470696
2001	1,342,232,777	36,758,279	0.02738592
2002	1,668,617,110	35,866,792	0.02149492
2003	1,982,470,064	34,882,611	0.01759553
2004	2,294,454,249	33,862,454	0.01475839
2005	2,719,982,105	32,792,724	0.01205623
2006	3,446,887,473	31,643,026	0.00918017
2007	4,140,693,955	30,462,055	0.00735675

General Obligation Debt Outstanding - ID 240

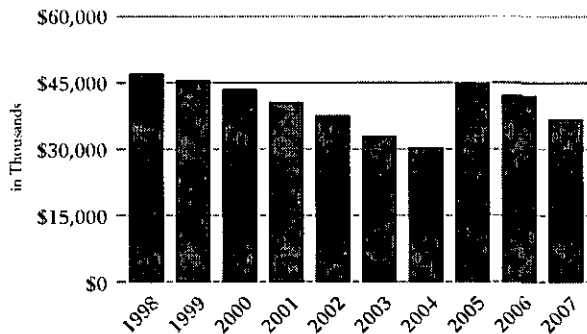


Source: Irvine Ranch Water District and the County of Orange Auditor Controller

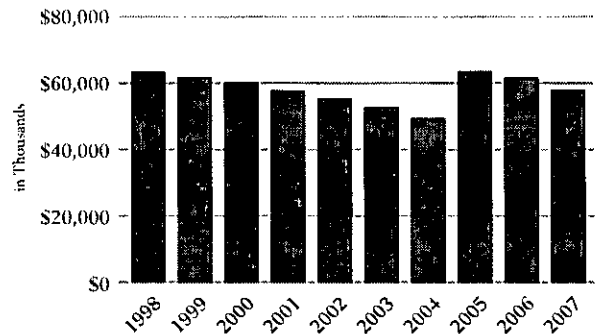
Irvine Ranch Water District
Ratio of General Obligation Debt to Assessed Values
For the Past Ten Fiscal Years
(Continued)

Fiscal Year Ended	Assessed Valuation	General Obligation Debt Outstanding	General Obligation Debt to Assessed Valuation	Assessed Valuation	General Obligation Debt Outstanding	General Obligation Debt to Assessed Valuation
1998	\$ 1,035,692,689	48,528,824	0.04685639	\$ 1,032,567,166	65,621,013	0.06355133
1999	1,173,027,498	46,001,880	0.03921637	1,170,009,974	63,316,186	0.05411594
2000	1,497,382,162	43,363,113	0.02895928	1,492,490,565	60,840,279	0.04076426
2001	1,838,660,109	40,539,688	0.02204849	1,833,697,786	58,204,803	0.03174176
2002	2,171,751,832	37,516,330	0.01727469	2,166,638,777	55,375,870	0.02555842
2003	2,631,853,234	34,390,746	0.01306712	2,626,638,626	52,352,492	0.01993136
2004	3,134,625,172	31,004,136	0.00989086	3,129,472,091	49,109,239	0.01569250
2005	3,548,888,756	27,478,309	0.00774279	3,543,639,799	45,671,541	0.01286831
2006	4,222,037,532	40,689,457	0.00963740	4,216,683,635	61,798,218	0.01465564
2007	5,194,093,605	37,058,770	0.00713479	4,874,632,043	57,946,529	0.01188736

General Obligation Debt Outstanding - ID 150

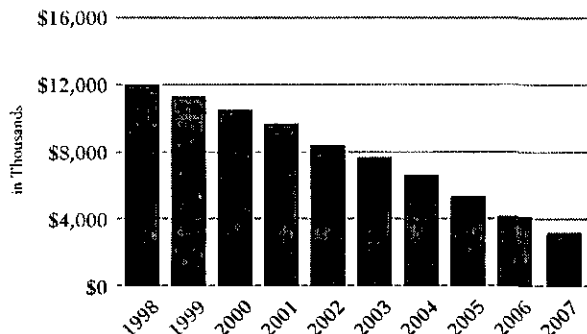


General Obligation Debt Outstanding - ID 250



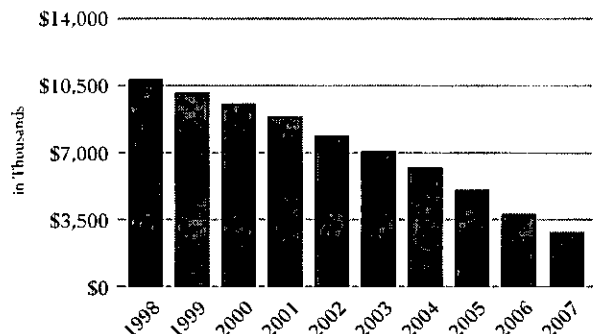
Improvement District 160			
1997	\$ 601,111,032	12,069,129	0.02007804
1998	634,498,858	11,260,256	0.01774669
1999	768,060,031	10,429,132	0.01357854
2000	938,497,665	9,530,621	0.01015519
2001	1,056,647,181	8,577,977	0.00811811
2002	1,205,443,542	7,585,846	0.00629299
2003	1,486,590,105	6,511,087	0.00437988
2004	2,101,987,732	5,380,202	0.00255958
2005	2,992,826,431	4,162,705	0.00142421
2006	3,372,542,514	2,883,510	0.00085500

General Obligation Debt Outstanding - ID 160



Improvement District 260			
1998	\$ 568,901,486	10,959,760	0.01926478
1999	644,844,545	10,178,474	0.01578438
2000	777,030,343	9,523,221	0.01225592
2001	909,048,770	8,808,501	0.00968980
2002	1,023,835,907	8,029,412	0.00784248
2003	1,165,302,814	7,068,359	0.00606568
2004	1,442,431,910	6,063,834	0.00420390
2005	2,050,256,515	5,006,026	0.00244166
2006	2,886,594,651	3,759,359	0.00131144
2007	3,304,863,810	2,555,074	0.00077313

General Obligation Debt Outstanding - ID 260

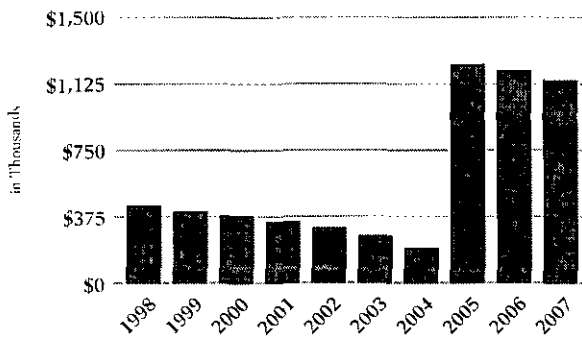


Source: Irvine Ranch Water District and the County of Orange Auditor Controller

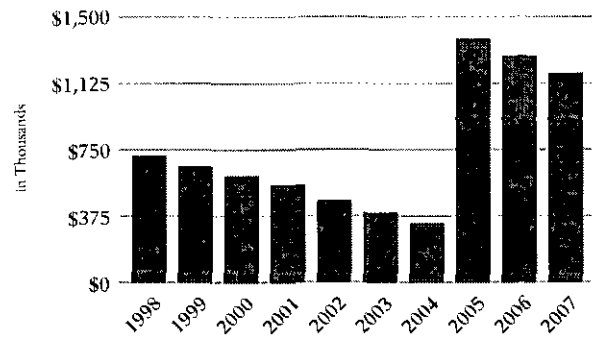
Irvine Ranch Water District
 Ratio of General Obligation Debt to Assessed Values
 For the Past Ten Fiscal Years
 (Continued)

Fiscal Year Ended	Improvement District 161			Improvement District 261		
	Assessed Valuation	General Obligation Debt Outstanding	General Obligation Debt to Assessed Valuation	Assessed Valuation	General Obligation Debt Outstanding	General Obligation Debt to Assessed Valuation
1998	\$ 543,271,972	459,579	0.00084595	\$ 606,011,312	706,986	0.00116662
1999	573,292,801	423,972	0.00073954	681,173,406	652,208	0.00095748
2000	701,057,471	386,055	0.00055068	814,331,480	593,881	0.00072929
2001	864,372,534	345,841	0.00040011	947,092,085	532,018	0.00056174
2002	977,186,588	302,180	0.00030923	1,064,421,785	464,853	0.00043672
2003	1,122,693,719	256,221	0.00022822	1,213,366,283	394,153	0.00032484
2004	1,398,433,040	206,815	0.00014789	1,494,056,460	318,150	0.00021294
2005	2,007,153,739	155,112	0.00007728	2,109,648,525	238,613	0.00011311
2006	2,817,492,876	1,197,961	0.00042519	2,929,383,541	1,257,773	0.00042936
2007	3,260,457,444	1,149,704	0.00035262	3,382,835,586	1,183,538	0.00034987

General Obligation Debt Outstanding - ID 161



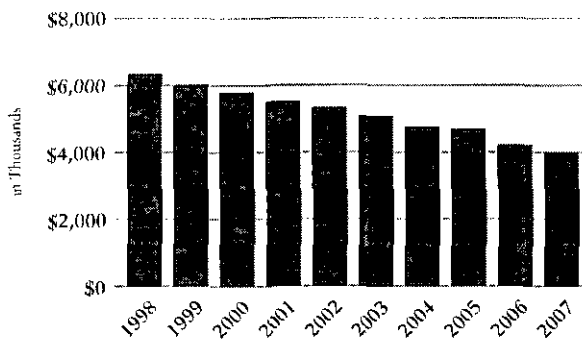
General Obligation Debt Outstanding - ID 261



Improvement District 182

1998	\$182,941,149	6,200,000	0.03389068
1999	197,740,067	6,000,000	0.03034286
2000	234,646,534	5,800,000	0.02471803
2001	257,642,166	5,600,000	0.02173557
2002	291,208,540	5,300,000	0.01820002
2003	321,075,182	5,000,000	0.01557268
2004	367,379,519	4,700,000	0.01279331
2005	429,865,962	4,400,000	0.01023575
2006	509,371,089	4,360,000	0.00855957
2007	643,569,573	3,960,000	0.00615318

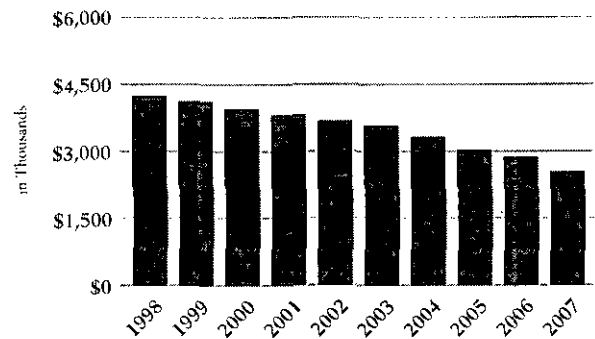
General Obligation Debt Outstanding - ID 182



Improvement District 282

1998	\$182,941,149	4,300,000	0.02350483
1999	197,740,067	4,100,000	0.02073429
2000	234,646,534	4,000,000	0.01704692
2001	257,642,166	3,800,000	0.01474914
2002	291,208,540	3,600,000	0.01236227
2003	321,075,182	3,500,000	0.01090087
2004	367,379,519	3,200,000	0.00871034
2005	429,865,962	3,000,000	0.00697892
2006	509,371,089	2,800,000	0.00549697
2007	643,569,573	2,500,000	0.00388458

General Obligation Debt Outstanding - ID 282

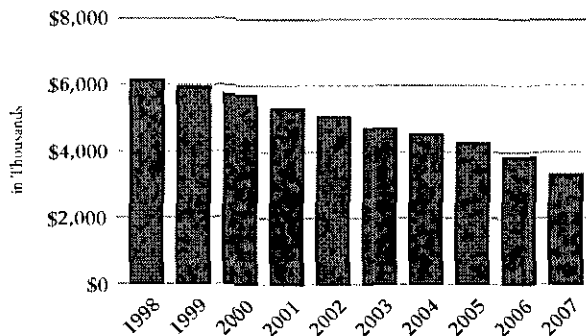


Source: Irvine Ranch Water District and the County of Orange Auditor Controller

Irvine Ranch Water District
 Ratio of General Obligation Debt to Assessed Values
 For the Past Ten Fiscal Years
 (Continued)

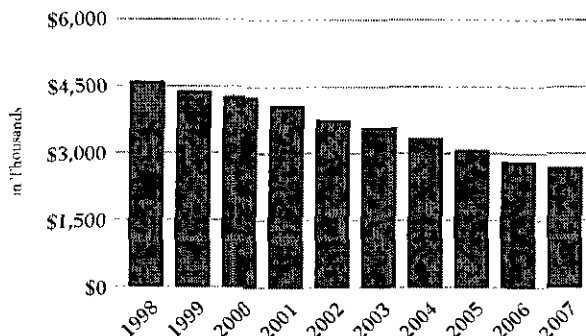
Fiscal Year Ended	Assessed Valuation	General Obligation Debt Outstanding	General Obligation Debt to Assessed Valuation	Assessed Valuation	General Obligation Debt Outstanding	General Obligation Debt to Assessed Valuation
Improvement District 284						
1998	\$ 88,086,820	6,200,000	0.07038510			
1999	114,052,470	6,000,000	0.05260737			
2000	139,731,284	5,700,000	0.04079258			
2001	173,108,075	5,500,000	0.03177206			
2002	201,954,218	5,200,000	0.02574841			
2003	212,339,216	4,900,000	0.02307628			
2004	234,612,404	4,600,000	0.01960681			
2005	262,111,956	4,300,000	0.01640520			
2006	283,547,263	3,900,000	0.01375432			
2007	328,208,160	3,960,000	0.01206551			

General Obligation Debt Outstanding - ID 284



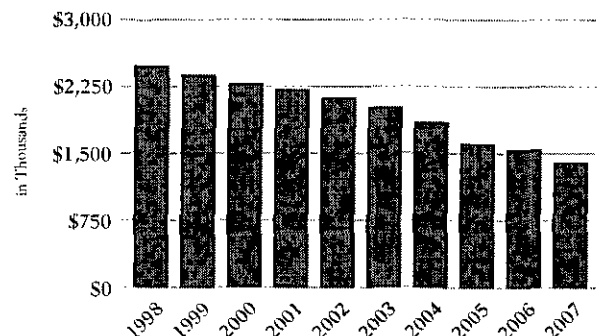
Fiscal Year Ended	Assessed Valuation	General Obligation Debt Outstanding	General Obligation Debt to Assessed Valuation
Improvement District 186			
1998	\$ 50,942,998	4,595,833	0.09021521
1999	57,038,607	4,409,972	0.07731557
2000	74,917,643	4,224,111	0.05638340
2001	88,941,661	4,021,354	0.04521339
2002	100,471,202	3,818,597	0.03800688
2003	112,738,988	3,582,046	0.03177292
2004	131,012,460	3,345,496	0.02553571
2005	160,071,307	3,092,050	0.01931670
2006	195,573,514	2,821,706	0.01442786
2007	226,924,367	2,551,363	0.01124323

General Obligation Debt Outstanding - ID 186



Fiscal Year Ended	Assessed Valuation	General Obligation Debt Outstanding	General Obligation Debt to Assessed Valuation
Improvement District 188			
1998	\$ 3,055,000	2,517,683	0.82411876
1999	12,572,112	2,415,865	0.19216061
2000	12,805,067	2,314,047	0.18071336
2001	13,042,080	2,202,972	0.16891266
2002	11,230,337	2,091,898	0.18627208
2003	11,454,943	1,962,312	0.17130697
2004	11,684,036	1,832,725	0.15685718
2005	11,694,828	1,693,882	0.14484028
2006	11,928,713	1,545,783	0.12958508
2007	12,167,278	1,397,684	0.11487238

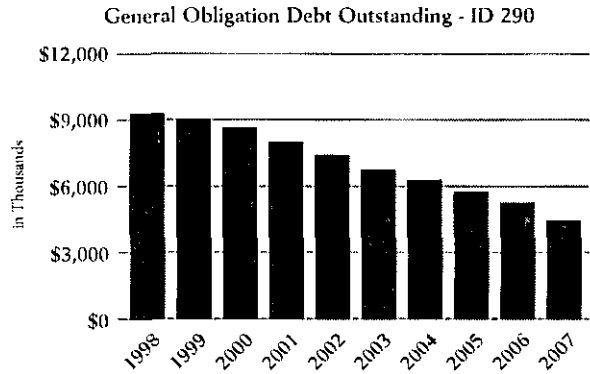
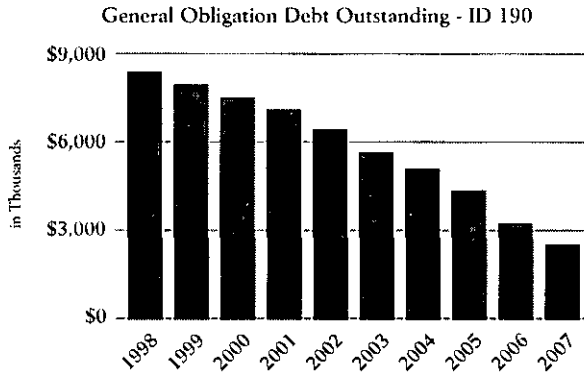
General Obligation Debt Outstanding - ID 188



Source: Irvine Ranch Water District and the County of Orange Auditor Controller

Irvine Ranch Water District
 Ratio of General Obligation Debt to Assessed Values
 For the Post Ten Fiscal Years
 (Continued)

Fiscal Year Ended	Assessed Valuation	General Obligation Debt Outstanding	General Obligation Debt to Assessed Valuation	Improvement District 190			Improvement District 290		
				Assessed Valuation	General Obligation Debt Outstanding	General Obligation Debt to Assessed Valuation	Assessed Valuation	General Obligation Debt Outstanding	General Obligation Debt to Assessed Valuation
1998	\$ 21,891,666	8,482,106	0.38745821	\$ 21,891,666	9,345,090	0.42687889			
1999	33,127,889	7,983,610	0.24099363	33,127,889	8,934,577	0.26969955			
2000	26,711,215	7,447,520	0.27881623	26,711,215	8,495,431	0.31804733			
2001	23,373,458	6,880,794	0.29438492	23,373,458	8,022,004	0.34321000			
2002	23,683,950	6,267,210	0.26461845	23,683,950	7,517,788	0.31742119			
2003	98,550,840	5,603,956	0.05686361	98,550,840	6,971,671	0.07074188			
2004	193,467,473	4,900,789	0.02533133	193,467,473	6,389,145	0.03302439			
2005	274,890,597	4,147,954	0.01508947	274,890,597	5,764,721	0.02097096			
2006	504,233,712	3,334,458	0.00661292	504,233,712	5,078,811	0.01007234			
2007	643,015,916	2,542,152	0.00395348	643,015,916	4,374,977	0.00680384			

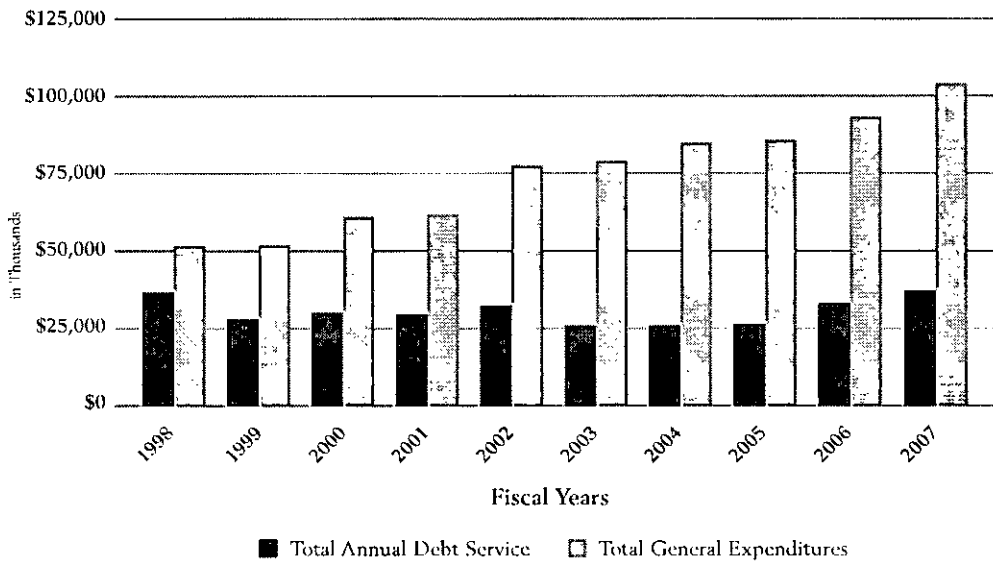


Irvine Ranch Water District

Ratios of Annual Debt Service Expenditures to Total General Expenditures - Cash Basis
For the Past Ten Fiscal Years
(in thousands)

<u>Fiscal Year Ended</u>	<u>Total Annual Debt Service</u>	<u>Total General Expenditures</u>	<u>Ratio of Total Annual Debt Service to Total General Expenditures</u>
1998	\$38,933	\$52,869	73.6%
1999	27,840	53,095	52.4%
2000	28,985	59,863	48.4%
2001	29,211	60,918	48.0%
2002	31,991	77,869	41.1%
2003	27,408	79,710	34.4%
2004	27,751	84,890	32.7%
2005	28,090	85,937	32.7%
2006	32,186	92,229	34.9%
2007	37,177	104,592	35.5%

Annual Debt Service to Annual General Expenditures



Source: Irvine Ranch Water District

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Irvine Ranch Water District
Debt Service Coverage
For the Past Ten Fiscal Years
(in thousands)

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001⁽¹⁾</u>	<u>2002</u>
Revenues					
Water sales and service charges	\$ 21,195	\$ 22,335	\$ 22,350	\$ 23,023	\$ 27,647
Sewer sales and service charges	11,522	11,840	12,656	13,719	17,518
1% property tax revenues	0	0	0	0	0
Connection fees	5,913	7,047	7,036	7,912	5,059
Net real estate income	4,686	4,711	4,596	3,772	6,276
Interest income	20,137	24,544	26,186	21,756	30,523
Net earnings on JPA	5,050	21,509	2,549	2,744	2,452
Other	2,674	2,467	5,481	7,413	7,555
Total revenues	<u>\$ 71,177</u>	<u>\$ 94,453</u>	<u>\$ 80,854</u>	<u>\$ 80,339</u>	<u>\$ 97,030</u>
Expenses					
Water services	17,701	18,015	18,403	20,451	25,184
Sewer services	7,839	8,969	10,978	9,146	15,060
Administrative and general	8,703	6,666	9,671	10,071	11,451
Customer accounts	1,767	1,650	1,692	1,871	2,165
Other	2,060	1,194	833	1,944	6,166
Total expenses	<u>38,070</u>	<u>36,494</u>	<u>41,577</u>	<u>43,483</u>	<u>60,026</u>
Net revenues	<u>33,107</u>	<u>57,959</u>	<u>39,277</u>	<u>36,856</u>	<u>37,004</u>
Senior debt service					
2002 Certificates of participation series A & B	0	0	0	0	0
1997 State Loan #3	0	0	227	227	227
Prior reimbursement agreements	0	0	0	0	0
Total senior debt service	<u>0</u>	<u>0</u>	<u>227</u>	<u>227</u>	<u>227</u>
Senior debt service coverage	N/A	N/A	N/A	N/A	N/A
Other revenue available for subordinate debt service					
1% property tax revenues	6,162	6,190	7,323	9,227	11,279
Ad valorem property tax revenues	<u>5,205</u>	<u>1,668</u>	<u>5</u>	<u>1,619</u>	<u>2,451</u>
Net revenues available for subordinate debt service	44,474	65,817	46,378	47,475	50,507
Subordinate debt service					
State Loans # 1 and #2	292	292	292	292	292
Certificates of participation	3,206	3,382	3,447	3,854	2,823
Ad valorem bonds	34,495	24,815	25,478	27,077	24,562
Total subordinate debt service	<u>37,993</u>	<u>28,489</u>	<u>29,217</u>	<u>31,223</u>	<u>27,677</u>
Subordinate debt service coverage	1.2	2.3	1.6	1.5	1.8
Net revenues available for other purposes	<u>6,481</u>	<u>37,328</u>	<u>17,161</u>	<u>16,252</u>	<u>22,830</u>

Source: Irvine Ranch Water District

Notes:

(1) The Los Alisos Water District and the District consolidated on December 31, 2000.

Irvine Ranch Water District
Debt Service Coverage
For the Past Ten Fiscal Years
(in thousands)

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Revenues					
Water sales and service charges	\$ 27,185	\$ 31,700	\$ 33,105	\$ 39,256	\$ 45,138
Sewer sales and service charges	18,521	23,346	24,622	29,248	37,649
1% property tax revenues	0	0	0	0	0
Connection fees	6,677	5,546	6,188	17,903	22,122
Net real estate income	4,668	4,541	4,945	4,625	4,921
Interest income	5,973	5,158	7,695	9,115	10,768
Net earnings on JPA	2,360	3,269	3,277	3,367	3,388
Other	6,120	13,065	9,753	8,494	10,457
Total revenues	<u>\$ 71,504</u>	<u>\$ 86,625</u>	<u>\$ 89,585</u>	<u>\$ 112,008</u>	<u>\$ 134,443</u>
Expenses					
Water services	24,820	26,139	25,198	29,813	33,281
Sewer services	15,558	19,052	19,055	18,480	23,439
Administrative and general	12,141	12,301	12,879	14,181	16,595
Customer accounts	2,207	2,307	2,410	2,620	2,829
Other	373	1,881	430	666	884
Total expenses	<u>55,099</u>	<u>61,680</u>	<u>59,972</u>	<u>65,760</u>	<u>77,028</u>
Net revenues	<u>16,405</u>	<u>24,945</u>	<u>29,613</u>	<u>46,248</u>	<u>57,415</u>
Senior debt service					
2002 Certificates of participation series A & B	470	599	1,094	1,873	2,319
1997 State Loan #3	227	226	226	227	226
Prior reimbursement agreements	0	0	0	0	0
Total senior debt service	<u>697</u>	<u>825</u>	<u>1,320</u>	<u>2,100</u>	<u>2,545</u>
Senior debt service coverage	23.5	30.2	22.4	22.0	22.6
Other revenue available for subordinate debt service					
1% property tax revenues	12,833	14,474	7,335	10,177	22,256
Ad valorem property tax revenues	<u>1,414</u>	<u>830</u>	<u>390</u>	<u>5,060</u>	<u>8,411</u>
Net revenues available for subordinate debt service	29,955	39,424	36,018	59,385	85,537
Subordinate Debt Service					
State Loans # 1 and #2	292	292	292	292	288
Certificates of participation	2,641	2,573	3,128	3,758	4,099
Ad valorem bonds	23,377	23,524	25,823	28,935	30,451
Total subordinate debt service	<u>26,310</u>	<u>26,389</u>	<u>29,243</u>	<u>32,985</u>	<u>34,838</u>
Subordinate debt service coverage	1.1	1.5	1.2	1.8	2.5
Net revenues available for other purposes	<u>3,645</u>	<u>13,035</u>	<u>6,775</u>	<u>26,400</u>	<u>50,699</u>

Irvine Ranch Water District
Demographic & Economic Statistics
For the Past Ten Fiscal Years

Fiscal Year Ended	IRWD Population	City of Irvine Population	City of Irvine Median Family Income	Total Personal Income	County of Orange Unemployment Rate
1998	N/A	133,152	N/A	N/A	N/A
1999	N/A	135,500	N/A	N/A	N/A
2000	N/A	144,100	N/A	N/A	N/A
2001	N/A	148,100	N/A	N/A	N/A
2002	N/A	157,499	N/A	N/A	N/A
2003	N/A	164,923	N/A	N/A	N/A
2004	N/A	171,700	N/A	N/A	N/A
2005	316,000	172,182	\$82,827	\$7,267,978	N/A
2006	322,000	193,785	\$85,624	\$8,179,859	3.8%
2007	330,000	202,079	N/A (1)	N/A (1)	3.2%

Source: City of Irvine Comprehensive Annual Financial Report (Fiscal Year Ended June 30, 2006) and County of Orange website.

*Data for the entire Irvine Ranch Water District service area is not readily available.
The City of Irvine is only a part of the IRWD service area.*

(1) Median Family Income and Total Personal Income for FY 2007 has not yet been published by the City of Irvine.

Irvine Ranch Water District

Principal Employers

Fiscal Year Ended June 30, 2007

Name of Company	Employment	Products	Percentage of Total Employment
University of California, Irvine	16,374	Educational	8.19%
Irvine Unified School District	4,025	Educational	2.01%
Verizon Wireless	2,179	Communications	1.15%
St. John Knits	2,297	Knit Garments	1.09%
Edwards Life Sciences	1,854	Surgical Appliances and Supplies	0.93%
Parker Hannifin	1,752	Aircraft Parts	0.88%
New Century Mortgage	1,620	Mortgage and Non-Mortgage	0.85%
Allergan	1,922	Pharmaceutical (R&D/Marketing)	0.84%
Washington Mutual	1,650	Banking	0.82%
Broadcom	1,647	Technology	0.82%
			<u>17.58%</u>

Source: City of Irvine Comprehensive Annual Financial Report (June 30, 2006)

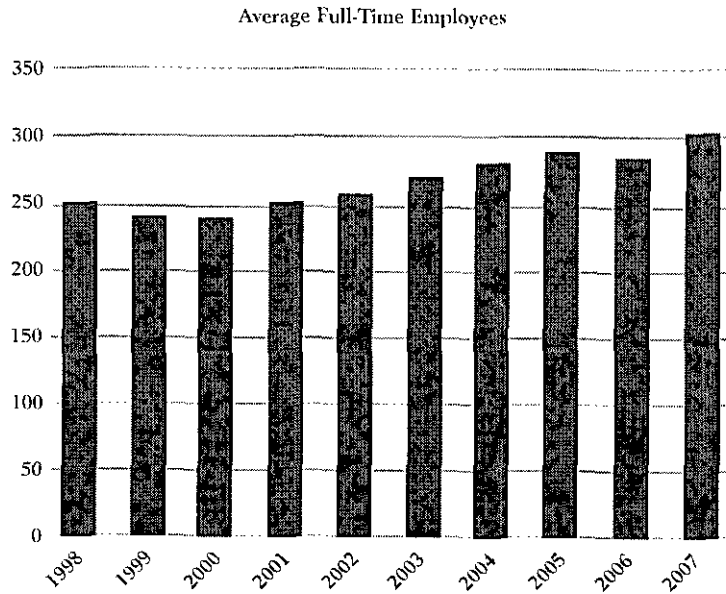
Data was not yet available for FY 2006/07 from the City of Irvine.

The City of Irvine is only a part of the IRWD service area.

Information for Principal Employers is not available for 1998 for comparison purposes.

Irvine Ranch Water District
 Full-Time Employees
 For the Past Ten Fiscal Years

Average Full-Time Employees	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
	252	244	244	253	260	275	285	293	290	303



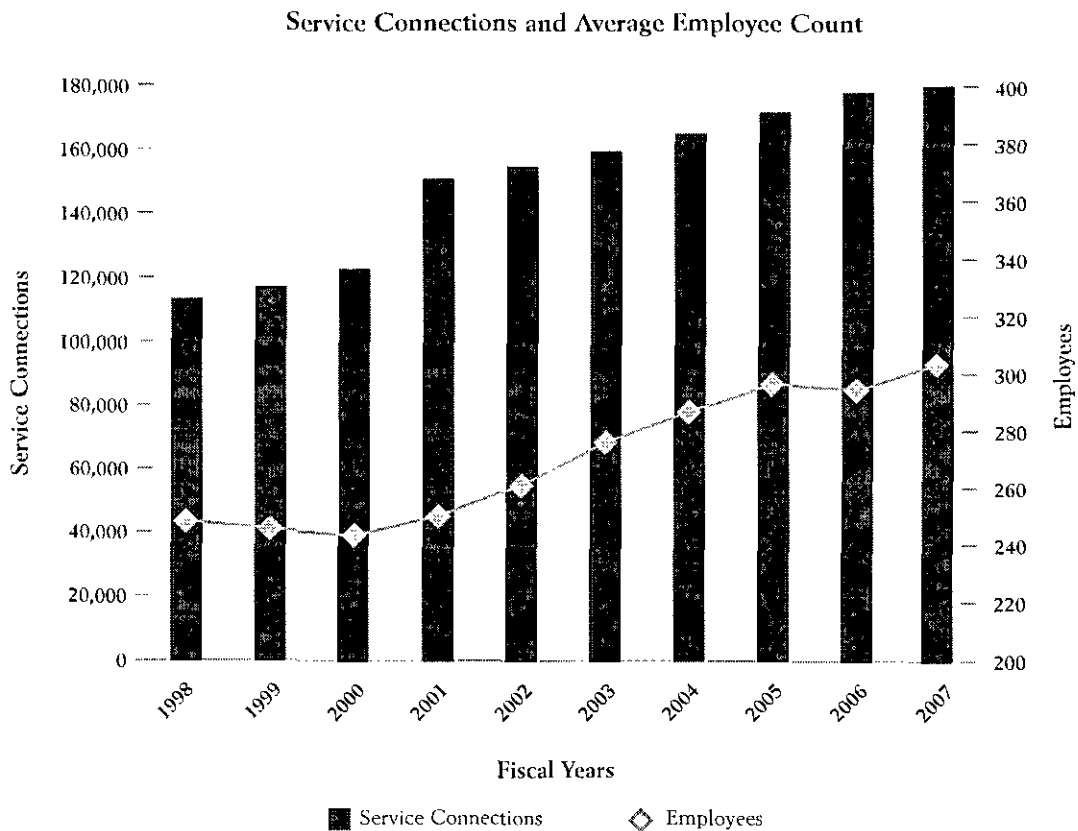
Irvine Ranch Water District
 Water and Sewer Service Connections
 For the Past Ten Fiscal Years

<u>Fiscal Year Ended</u>	<u>Potable Water</u>	<u>Non-Potable Water</u>	<u>Sewer & Recycled Water</u>	<u>Total Service Connections</u>	<u>Average Employee Population</u>	<u>Service Connections per Employee</u>
1998	58,880	119	53,790	112,789	252	448
1999	61,654	118	56,461	118,233	244	485
2000	64,247	118	58,996	123,361	244	506
2001 (1)	79,011	118	73,268	152,397	253	602
2002	81,659	120	75,957	157,736	260	607
2003	83,527	120	77,803	161,450	275	587
2004	85,788	117	83,195	169,100	285	593
2005	88,423	143	83,874	172,440	293	589
2006	90,816	219	86,106	177,141	290	611
2007	93,531	293	88,023	181,847	303	600

Source: Irvine Ranch Water District

Notes:

(1) The Los Alisos Water District and the District consolidated on December 31, 2000.



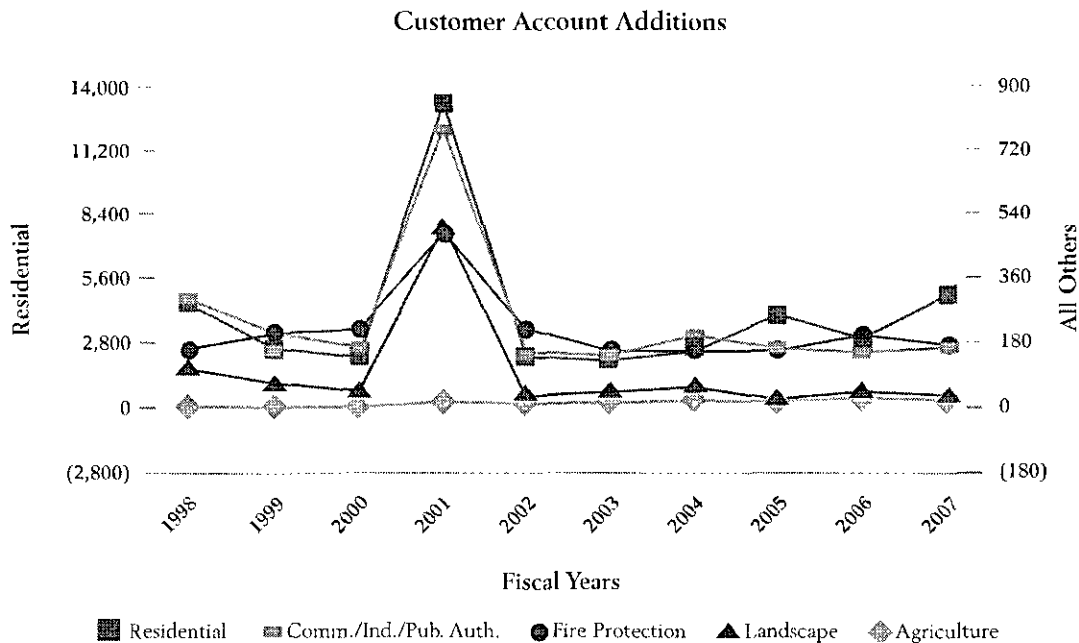
Irvine Ranch Water District
 Operating Indicators by Function
 New Service Connections
 For the Past Ten Fiscal Years

	1998	1999	2000	2001 (1)	2002	2003	2004	2005	2006	2007
Water										
Residential	4,538	2,259	2,300	13,044	2,306	1,563	1,788	2,360	2,039	2,211
Commercial/Industrial/ Public Authority	276	151	117	766	138	119	171	252	152	312
Fire Protection	168	199	208	469	234	152	141	137	128	162
Landscape Irrigation	119	57	36	503	20	15	25	6	15	19
Agricultural	3	(5)	1	3	(3)	0	(5)	(6)	0	2
Sewer										
Residential	1,797	2,325	2,180	13,019	2,296	1,561	1,808	2,355	2,002	1,462
Commercial/Industrial/ Public Authority	126	138	126	758	148	115	1,268	237	150	290
Landscape Irrigation	142	213	230	495	246	168	174	264	156	276
Agricultural	(3)	(5)	(2)	0	0	2	(2)	(2)	0	(2)

Source: Irvine Ranch Water District

Notes:

(1) The Los Alisos Water District and the Irvine Ranch Water District consolidated on January 1, 2001.



Irvine Ranch Water District
 Operating Indicators by Function
 Average Monthly Usage (in CCF)
 For the Past Ten Fiscal Years

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Water										
Residential	10.4	10.7	11.0	10.9	10.3	11.0	10.1	9.6	10.6	11.0
Commercial	103.5	98.8	90.6	83.3	76.0	75.3	68.3	71.8	72.9	74.7
Industrial	281.3	287.6	278.9	285.6	262.8	258.4	227.1	257.9	241.0	227.6
Public Authority	1,014.1	921.9	623.7	558.6	483.0	487.4	397.8	464.4	454.3	356.3
Construction & Temporary	272.0	180.0	166.2	159.9	261.7	237.3	178.9	95.3	93.6	93.8
Treated - Landscape Irrigation	104.3	118.3	126.4	110.9	116.1	107.1	99.1	102.8	109.9	127.2
Treated - Agricultural	2,120.2	2,422.7	2,956.7	2,047.3	2,795.8	2,308.7	2,079.5	1,989.8	1,759.8	1,652.9
Untreated - Agricultural	8,704.7	9,587.1	11,525.3	7,564.3	7,399.1	6,836.3	5,686.3	5,520.1	7,659.3	7,990.8
	<u>12,610.5</u>	<u>13,627.1</u>	<u>15,778.8</u>	<u>10,820.8</u>	<u>11,404.8</u>	<u>10,321.5</u>	<u>8,747.1</u>	<u>8,511.7</u>	<u>10,401.4</u>	<u>10,534.3</u>
Recycled water										
Landscape Irrigation	234.1	219.6	254.7	216.2	224.5	187.8	199.1	177.5	176.3	210.9
Agricultural	120.8	164.0	192.0	137.3	134.3	277.0	329.5	268.0	895.1	1,791.6
	<u>354.9</u>	<u>383.6</u>	<u>446.7</u>	<u>353.5</u>	<u>358.8</u>	<u>464.8</u>	<u>528.6</u>	<u>445.5</u>	<u>1,071.4</u>	<u>2,002.5</u>

Source: Irvine Ranch Water District

Irvine Ranch Water District
 Capital Asset Statistics
 For the Past Four Fiscal Years
 June 30, 2007

		2004	2005	2006	2007
Potable System					
Miles of Water Main	(1)	930	990	1,040	1,090
Number of Storage Tanks		27	27	29	37
Maximum Storage Capacity (Acre Feet)		412	418	440	460
Number of Pumping Plants		24	24	32	40
Number of Wells		21	21	26	26
Well Production Capacity (cfs)		100	100	109	109
Non-Potable and Recycled Systems					
Miles of Water Main	(1)	277	307	337	367
Number of Storage Tanks	(2)	13	14	10	11
Number of Open Reservoirs	(2)			4	4
Maximum Storage Capacity (Acre Feet)		25,500	28,500	30,036	30,043
Number of Pumping Plants		17	17	14	20
Number of Wells		4	4	7	7
Well Production Capacity (cfs)		4.5	4.5	6.0	6.0
Sewer System					
Miles of Sewer Line		620	656	680	809
Number of Lift Stations		22	22	16	29
Treatment Plants		2	2	2	2
Treatment Capacity		22.5	22.5	22.5	22.5
Average Flows		17.8	18.6	19.5	19.5
Average % of Daily Flows - Michelson Plant		76%	74%	71%	72%
Average % of Daily Flows - Los Alisos Plant		24%	26%	29%	28%

Source: Irvine Ranch Water District

Note: (1) Miles of Water Main only include Distribution and Transmission mains, not laterals.

(2) IRWD began reporting storage tanks and open reservoirs separately in 2006. Previously for purposes of these statistics, both have been combined under "storage tanks".

Information on prior years' capital asset statistics was not readily available.

IRVINE RANCH WATER DISTRICT

POST OFFICE BOX 57000

IRVINE, CALIFORNIA 92619-7000

949.453.5300

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APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a summary of certain provisions of the Indenture. This summary does not purport to be comprehensive, and reference should be made to the Indenture for a full and complete statement of its provisions.

Definitions

“**Act**” means the California Water District Law, Division 13 of the Water Code, as amended from time to time.

“**Adjusted Interest Rate**” means, with respect to the interest rate to be borne by the Bonds during any Adjustment Period, the annual interest rate determined on the applicable Rate Determination Date in accordance with the Indenture.

“**Adjustment Period**” means the period of time that any Adjusted Interest Rate remains in effect, which period

(a) with respect to the Daily Mode, shall be the period consisting of one day;

(b) with respect to a VIP Pricing Bond, shall be the period from and including the Rate Determination Date for such Bond with respect to such Adjustment Period to and including the day preceding the following Rate Determination Date for such Bond as established by IRWD pursuant to the Indenture; provided, however, that the day after the last day of any such Adjustment Period shall be a Business Day and each such Adjustment Period shall be at least one day;

(c) with respect to the Weekly Mode, initially shall be the period from and including the first day that the Bonds become subject to the Weekly Mode to and including the following Wednesday and thereafter commencing on each Thursday to and including Wednesday of the following week;

(d) with respect to the Monthly Mode, initially shall be the period from and including the first day that the Bonds become subject to the Monthly Mode to but not including the first day of the following calendar month and thereafter shall be the period from and including the first day of each calendar month to but not including the first day of the following calendar month;

(e) with respect to the Semi-Annual Mode, initially shall be the period from and including the first day that the Bonds become subject to the Semi-Annual Mode to but not including the next January 1 or July 1, whichever first occurs, and thereafter shall be the period from and including such January 1 or July 1, as applicable, to but not including the next succeeding January 1 or July 1, whichever first occurs;

(f) with respect to the Annual Mode, initially shall be the period from and including the first day that the Bonds become subject to the Annual Mode to but not including the next January 1 or July 1, whichever last occurs and thereafter shall be the period from and including such January 1 or July 1, as applicable, to but not including the next succeeding January 1 or July 1, whichever last occurs;

(g) with respect to the Fixed Rate Mode, shall be the period from and including the Conversion Date to but not including the Maturity Date.

No Adjustment Period shall extend beyond the day preceding the Maturity Date.

“Alternate Letter of Credit” means a letter of credit or other security or liquidity device issued in accordance with the Indenture which shall have a term of not less than one year and shall have the same material terms as the Letter of Credit.

“Annual Mode” means the Mode in which the duration of the Adjustment Period is determined in accordance with clause (f) of the definition of Adjustment Period.

“Authorized Denominations” means with respect to the Daily Mode and the Weekly Mode, \$100,000 and any integral multiple of \$5,000 in excess thereof.

“Bank” means Landesbank Baden-Württemberg, acting through its New York Branch, and its successors and assigns or the issuer of an Alternate Letter of Credit.

“Bank Interest Rate” means the interest rate payable on Bank-Owned Bonds computed in accordance with the terms of the Reimbursement Agreement, but not in excess of the rate determined pursuant to clause (i) of the definition of “Maximum Rate.”

“Bank-Owned Bonds” means any Bonds registered in the name of the Bank pursuant to the Indenture.

“Bond Counsel” means any firm of nationally recognized municipal bond attorneys selected by IRWD and experienced in the issuance of municipal bonds and the exclusion of the interest thereon from gross income for federal income tax purposes.

“Bond Depository” means a trust company or other financial institution which is registered as a “clearing agency” pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended, or is otherwise qualified under applicable law to act as securities custodian for Bonds on behalf of the Participants and the beneficial owners of interests in such Bonds.

“Bond Payment Fund” means the fund so defined and created in the Indenture.

“Bond Register” means books for the registration of the ownership, transfer or exchange of the Bonds required to be kept by the Paying Agent at its principal corporate trust office pursuant to the provisions of the Indenture.

“Bonds” means the \$60,215,000 principal amount of bonds issued pursuant to the Indenture that are authenticated and delivered by the Trustee or the Paying Agent under and pursuant to the Indenture, including any bonds issued in exchange or in lieu thereof.

“Business Day” means a day on which the Trustee, the Paying Agent, the Remarketing Agent, the Bank or banks or trust companies in New York, New York, or in Los Angeles, California, or the city in which the office of the Bank where drawings under the Letter of Credit are to be made, are not authorized or required to remain closed and on which the New York Stock Exchange is not closed.

“Cede & Co.” means Cede & Co., the nominee of DTC as Bond Depository for any Bonds, and any successor nominee of DTC as such Bond Depository.

“Change in Mode” means any change pursuant to the Indenture from one Mode to another Mode.

“Closing Date” means April 24, 2008.

“Code” means the Internal Revenue Code of 1986.

“Costs of Issuance Fund” means the fund so defined and created in the Indenture.

“Conversion Date” means the date on which the Bonds begin to bear interest at a Fixed Interest Rate.

“Daily Mode” means the Mode in which the duration of each Adjustment Period is determined in accordance with clause (a) of the definition of Adjustment Period.

“DTC” means The Depository Trust Company, a limited-purpose trust company organized under the laws of the State of New York, and its successors and assigns. References in the Indenture to DTC shall include any nominee of DTC in whose name any Bonds are then registered.

“Electronic Notice” means notice through telecopy, telegraph, telex, facsimile transmission, internet, e-mail or other electronic means of communication.

“Eligible Account” means an account that is either (a) maintained with a federal or state-chartered depository institution or trust company that has a S&P short-term debt rating of at least “A-2” (or, if no short-term debt rating applies, a long-term debt rating of “BBB+”) or (b) maintained with the corporate trust department of a federal depository institution or state-chartered depository institution or trust company subject to regulations regarding fiduciary funds on deposit similar to Title 12 of the U.S. Code of Federal Regulations Section 9.10(b), which, in either case, has corporate trust powers and is acting in its fiduciary capacity.

“Event of Default” means any occurrence or event specified in and defined by the Indenture.

“Expiration Date” means the stated expiration date of the Letter of Credit, as it may be extended from time to time as provided in the Letter of Credit, or any earlier date on which the Letter of Credit shall terminate, expire or be cancelled.

“Favorable Opinion of Bond Counsel” means, with respect to any action the occurrence of which requires such an opinion, an unqualified Opinion of Counsel to the effect that such action is permitted under the Act and the Indenture, complies with the Indenture and will not impair the exclusion of interest on the Bonds from gross income for purposes of federal income taxation or the exemption of interest on the Bonds from personal income taxation under the laws of the State (subject to the inclusion of any exceptions contained in the opinion delivered upon original issuance of the Bonds).

“FINRA” means the Financial Industry Regulatory Authority, its successors and assigns.

“Fitch” means Fitch Ratings, and its successors or assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the services of a municipal securities rating agency, then “Fitch” shall be deemed to refer to any other nationally recognized municipal securities rating agency rating the Bonds at the request of IRWD.

“Fixed Interest Rate” means, with respect to a Bond, the rate to be borne by such Bond on and after the Conversion Date, which rate shall be determined in accordance with the Indenture.

“Fixed Rate Bonds” means the Bonds during the Fixed Rate Mode.

“Fixed Rate Mode” means the Mode in which the duration of the Adjustment Period is determined in accordance with clause (g) of the definition of Adjustment Period.

“Fixed Rate Reserve Account” means the account so defined and created in the Indenture.

“Fixed Rate Reserve Requirement” means the amount, if any, to be maintained in the Fixed Rate Reserve Account from and after the Conversion Date, as specified in the Fixed Rate Terms Certificate.

“Fixed Rate Terms Certificate” means the certificate delivered by IRWD to the Trustee in connection with a conversion of the Bonds to the Fixed Rate Mode in accordance with the Indenture.

“Funds” shall mean, collectively, the Purchase Fund, the General Obligation Bond Fund, the Bond Payment Fund, the Interest Reserve Fund, the Costs of Issuance Fund and the Rebate Fund created pursuant to the Indenture.

“General Obligation Bond Fund” means the fund so defined and created in the Indenture.

“Government Code” means the California Government Code, as amended.

“Government Obligations” means and includes any of the following securities, if and to the extent the same are non-callable and not subject to redemption at the option of the issuer, at the time legal for investment of IRWD’s funds, as determined by IRWD: direct obligations of, or obligations the full and timely payment of principal of and interest on which are unconditionally guaranteed by, the United States of America, including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America and including a receipt, certificate or any other evidence of a direct ownership interest in future payments of an obligation of, or unconditionally guaranteed by, the United States of America, or in specified portions thereof held by a custodian in safekeeping for the holders of such receipt, certificate or any other evidence of ownership (which may consist of specified portions of interest thereon) which is rated or assessed in the highest rating category of each Rating Agency, but excluding any share or interest in any unitary investment trust or mutual fund unless such unitary investment trust or mutual fund is rated or assessed in the highest rating category of each Rating Agency.

“Improvement Districts” means Improvement District No. 105, Improvement District No. 113, Improvement District No. 135, Improvement District No. 161, Improvement District No. 182, Improvement District No. 213, Improvement District No. 235, Improvement District No. 250 and Improvement District No. 261 of IRWD.

“Included Amount” for an Improvement District means the principal amount of Outstanding Bonds allocable to such Improvement District. The Included Amounts are initially as set forth under the provisions of the Indenture summarized under the caption “- Authorization of Bonds” and may be adjusted according to the terms of the Indenture.

“Included Percentage” means, with respect to an Improvement District, a fraction (i) the numerator of which is equal to the Included Amount for such Improvement District and (ii) the denominator of which is equal to the par value of all Outstanding Bonds, calculated to the fourth decimal place; provided, however, that on any date, the total of the Included Percentages for all Improvement Districts having Included Amounts of Outstanding Bonds on such date shall equal 100%. The Included Percentages are initially as set forth under the provisions of the Indenture summarized under the caption “- Authorization of Bonds” and may be adjusted according to the terms of the Indenture.

“Indenture” means the Indenture of Trust, dated as of April 1, 2008, by and between IRWD and the Trustee, as it may from time to time be supplemented or amended pursuant to the provisions of the Indenture.

“Interest Account” means the account so defined and created in the Indenture.

“Interest Payment Date” means with respect to the Daily Mode and the Weekly Mode, the fifth Business Day of each calendar month. “Interest Payment Date” shall also mean any Mandatory Purchase Date.

“Interest Reserve Fund” means the fund so defined and created in the Indenture.

“Interest Reserve Fund Requirement” means, on any date, an amount equal to the interest that would have accrued at the Maximum Rate during a period of 35 days ending on such date on the aggregate principal amount of Bonds then in the VIP Pricing Short-Term Mode.

“IRWD” means Irvine Ranch Water District, a California water district.

“IRWD Representative” means a person at the time designated to act on behalf of IRWD for purposes of the Indenture by a certificate furnished to the Trustee containing the specimen signature of such person and signed on behalf of IRWD by any of its officers. The certificate may designate an alternate or alternates.

“Letter of Credit” means the irrevocable, direct pay letter of credit issued by the Bank contemporaneously with the original delivery of the Bonds to support the payment of principal and Purchase Price of, and interest on, the Bonds, except that upon the issuance of an Alternate Letter of Credit in accordance with the Indenture such term shall mean such Alternate Letter of Credit.

“Letter of Credit Account” means the account so defined and created in the Indenture.

“Letter of Credit Interest Amount” means the amount of the Letter of Credit which may be drawn upon to pay interest on the Bonds, which (i) during the Daily Mode and the Weekly Mode shall be an amount equal to the interest to accrue on the Outstanding Bonds over a 45 day period in such Modes calculated at the Maximum Rate on the basis of a 365-day year for the actual number of days elapsed, and (ii) during any other Mode shall be an amount acceptable to the Rating Agencies as evidenced by Rating Confirmation Notices delivered to the Trustee.

“Letter of Credit Purchase Account” means the account so defined and created in the Indenture.

“Long-Term Mode” means the Fixed Rate Mode and the VIP Pricing Long-Term Mode.

“Mandatory Purchase Date” means: (i) the date of any Change in Mode, (ii) any Substitution Date, (iii) the fifth Business Day prior to the Expiration Date and (iv) a date which shall be a Business Day no more than 14 days after the Trustee’s receipt of written notice from the Bank that the Bank is terminating the Letter of Credit by reason of occurrence of an event of default under the Reimbursement Agreement and directing the Trustee to cause a mandatory tender of the Bonds.

“Maturity Date” means July 1, 2035.

“Maximum Rate” means the lesser of (i) the maximum rate permitted on that day for the Bonds by Section 53541 of the California Government Code or any other applicable provisions of law, except as permitted by Section 36447.10 of the Water Code, or (ii) the rate used to calculate the size of the portion of the Letter of Credit which is available to be drawn upon for the payment of interest on the Bonds, which shall initially be 12%; provided, however, that, if no Letter of Credit is then in effect, the Maximum Rate shall be the rate determined pursuant to clause (i) of this definition.

“Mode” means the VIP Pricing Short-Term Mode, the VIP Pricing Long-Term Mode, the Daily Mode, the Weekly Mode, the Monthly Mode, the Semi-Annual Mode, the Annual Mode or the Fixed Rate Mode.

“Monthly Mode” means the Mode in which the duration of the Adjustment Period is determined in accordance with clause (d) of the definition of Adjustment Period.

“Moody’s” means Moody’s Investors Service, a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term “Moody’s” shall be deemed to refer to any other nationally recognized securities rating agency selected by IRWD and approved by the Bank (which shall not be under any liability by reason of such approval).

“Notice Parties” means IRWD, the Trustee, the Remarketing Agent, the Paying Agent and the Bank.

“Notice of Change in Mode” means the notice required to be delivered by IRWD to the other Notice Parties prior to any Change in Mode pursuant to the Indenture.

“Opinion of Counsel” means a written opinion of Bond Counsel.

“Outstanding,” when used as of a particular time with reference to Bonds, means (subject to the provisions of the Indenture relating to disqualified Bonds) all Bonds delivered under the Indenture except:

(i) Bonds cancelled by the Trustee or the Paying Agent or surrendered to the Trustee or the Paying Agent for cancellation;

(ii) Bonds paid or deemed to have been paid within the meaning of the Indenture; and

(iii) Bonds in lieu of or in substitution for which replacement Bonds shall have been executed by IRWD and delivered by the Trustee or the Paying Agent under the Indenture.

Notwithstanding the foregoing, Bonds registered in the name of the Bank or its nominee pursuant to the Indenture shall remain Outstanding in the hands of the Bank until the Bank is paid all amounts due on such Bonds. Furthermore, Bonds, the principal of which was paid with a draw on the Letter of Credit, which draw has not been reimbursed, shall remain Outstanding until the Bank is reimbursed in full for such draw.

“Owner” means the registered owner of a Bond, including the Bond Depository for the Bonds, if any, or its nominee.

“Participant” means an entity which is recognized as a participant in the book-entry system of maintaining records with respect to the Bonds by the Bond Depository.

“Paying Agent” means The Bank of New York Trust Company, N.A., a national banking association duly incorporated and existing under and by virtue of the laws of the United States of America, or any other commercial bank or trust company having an office in Los Angeles, California or New York, New York, which may be substituted in its place as provided in the Indenture.

“Permitted Investments” means and includes any of the following securities, if and to the extent the same are at the time legal for investment of IRWD’s funds, as determined by IRWD:

(i) Government Obligations;

(ii) Bonds, debentures, notes, participation certificates or other evidences of indebtedness issued, or the principal of and interest on which are unconditionally guaranteed, by the Federal National Mortgage Association, the Bank for Cooperatives, or the Federal Intermediate Credit Bank, the Federal Home Loan Bank System, the Federal Land Banks, the Government National Mortgage Association or any other agency or instrumentality of or corporation wholly owned by the United States of America when such obligations are backed by the full faith and credit of the United States of America;

(iii) Obligations of any state of the United States of America or any political subdivision thereof, which at the time of investment are rated “A1/P-1” or higher by Moody’s and “A+” or higher by S&P or Fitch; or which are rated by Moody’s “VMIG 1” or better and by S&P “A-1” or better and by Fitch “F1” or better, with respect to commercial paper, or “MIG 1,” “SP-1+” or “F1+,” respectively, with respect to municipal notes;

(iv) Bank time deposits evidenced by certificates of deposit, and bankers’ acceptances, issued by any bank, trust company or national banking association insured by the Federal Deposit Insurance Corporation or the Securities Investors Protection Corp.; provided that (a) such bank, trust company, or national banking association is rated “A1/P-1” or better by Moody’s and “A+” or better by S&P or Fitch, or else that all of the securities acquired pursuant to this subsection (iv) are for amounts of \$100,000 or less, and with maturities of no longer than 365 days; and, (b) provided that (x) the aggregate of such bank time deposits and bankers’ acceptances issued by any bank, trust company or banking association does not exceed at any one time 10% of the aggregate of the capital stock, surplus and undivided profits of such bank, trust company or banking association and that such capital stock, surplus and undivided profits shall not be less than \$25,000,000, or else that (y) such deposits are fully and continuously secured by a valid and perfected prior security interest in obligations described in paragraph (i) or (ii) of this definition;

(v) Repurchase agreements with any bank, trust company or national banking association insured by the Federal Deposit Insurance Corporation or the Securities Investors Protection Corp.; provided that such bank, trust company or national banking association is rated “A1” or better by Moody’s and “A+” or better by S&P or Fitch, or with any government bond dealer recognized as a primary dealer by the Federal Reserve Bank of New York, which agreements are fully and continuously secured by a valid and perfected priority security interest in obligations described in paragraph (i) or (ii) of this definition;

(vi) Investment agreements with any corporation, including banking or financial institutions, the long-term corporate debt of which is rated, at the time of investment, “A1” or better by Moody’s and “A+” or better by S&P or Fitch;

(vii) Guaranteed investment contracts or similar funding agreements issued by insurance companies, the long-term corporate debt of which, at the time of investment, is rated “A1” or better by Moody’s and “A+” or better by S&P or Fitch;

(viii) Corporate commercial paper rated “MIG 1” or better by Moody’s and “A-1” or better by S&P and “F1” or better by Fitch at the time of investment;

(ix) Shares or interests in taxable government money market portfolios (including any money market mutual funds of the Trustee) restricted to obligations with maturities of one year or less issued by, or the payment of principal and interest with respect to which is guaranteed by, the United States of America, and which are rated “Aa” or better by Moody’s and “AAm” or better by S&P or Fitch at the time of investment;

(x) Interests in money market portfolios, including funds for which the Trustee, its parent holding company, if any, or any affiliates or subsidiaries of the Trustee provide investment advisory or other management services, exempt from federal income taxation and having assets in excess of \$1,000,000,000;

(xi) Investments in the Local Agency Investment Fund created pursuant to Section 16429.1 of the Government Code; and

(xii) Any other investment that is legal for the investment of IRWD’s funds or, to the extent that any moneys under the Indenture are held by the Trustee or a fiscal agent and pledged to the payment or security of the Bonds, any other investments which IRWD deems to be prudent investments and in which IRWD directs the Trustee or fiscal agent to invest, provided that such investments are either: (i) rated “A”/“A” or better, by at least two of S&P, Fitch and Moody’s at the time of such investment; or (ii) are issued by an entity the corporate debt of which is rated “A”/“A” or better, by at least two of S&P, Fitch and Moody’s; or (iii) are issued by an insurance company with a claims paying rating of “Aa” or better by Moody’s.

“Principal Account” means the account so defined and created in the Indenture.

“Principal Payment Date” means, prior to and on the Conversion Date, July 1 of each of the years specified in the Indenture and, after the Conversion Date, July 1 of each year from the year next succeeding the year containing the last Serial Maturity Date, as determined in accordance with the provisions of the Indenture summarized under the caption “- Changes in Mode” through the Maturity Date, inclusive.

“Prior Bonds” shall have the meaning set forth in the recitals to the Indenture.

“Prior Trustee” means Wells Fargo Bank, National Association, the trustee for the Prior Bonds.

“Purchase Date” means during the Daily Mode and the Weekly Mode, any Business Day (provided that with respect to Weekly Mode, the Tender Notice has been delivered by the Tender Deadline).

“Purchase Fund” means the fund so defined and created in the Indenture.

“Purchase Price” means with respect to any Bonds to be purchased on any Purchase Date other than a Mandatory Purchase Date, an amount equal to 100% of the principal amount of any Bonds purchased on such Purchase Date, plus, in the case of any purchase of Bonds in the Daily Mode or the Weekly Mode, accrued interest, if any, to such Purchase Date, and (ii) with respect to any Bonds purchased on a Mandatory Purchase Date, an amount equal to 100% of the principal amount of any Bonds purchased on such Mandatory Purchase Date, plus, in the case of any Bonds purchased as a result of an Expiration Date or a Substitution Date, accrued interest, if any, to such Mandatory Purchase Date.

“Rate Determination Date” means, with respect to any Adjusted Interest Rate for any Adjustment Period, the date on which such Adjusted Interest Rate shall be determined, which, (i) in the case of the Daily Mode shall be each Business Day and (ii) in the case of the Weekly Mode, shall be each Wednesday or, if Wednesday is not a Business Day, the next succeeding day, or if such day is not a Business Day, then the Business Day next preceding such Wednesday.

“Rating Agency” means Moody’s, S&P and Fitch, to the extent such entity is then rating the Bonds, and any other nationally recognized rating agency then rating the Bonds.

“Rating Confirmation Notice” means a notice from each Rating Agency confirming that the rating on the Bonds will not be lowered or withdrawn as a result of the action proposed to be taken.

“Rebate Fund” means the fund so defined and created in the Indenture.

“Rebate Requirement” means the Rebate Requirement as defined in the Tax Certificate.

“Record Date” means with respect to Bonds in the Daily Mode or the Weekly Mode, at 5:00 p.m. on the last day of the calendar month preceding each Interest Payment Date.

“Redemption Account” means the account so defined and created in the Indenture.

“Redemption Date” means the date fixed for redemption of Bonds subject to redemption in any notice of redemption given in accordance with the terms of the Indenture.

“Reimbursement Agreement” means that certain Reimbursement Agreement, dated as of April 1, 2008, by and between the Bank and IRWD or, if an Alternate Letter of Credit has been issued, the reimbursement agreement, or corresponding agreement, if any, executed and delivered in connection with such Alternate Letter of Credit.

“Remarketing Agent” means Lehman Brothers Inc., or any other investment banking firm which may at any time be substituted in its place as provided in the Indenture.

“Remarketing Agreement” means that certain Remarketing Agreement relating to the Bonds, dated as of April 1, 2008, by and between IRWD and the initial Remarketing Agent or any similar agreement between IRWD and any successor Remarketing Agent.

“Remarketing Proceeds Account” means the account so defined and created in the Indenture.

“Representation Letter” means the letter from IRWD and the Trustee to, or other instrument or agreement among IRWD and the Trustee with, the then current Bond Depository for the Bonds in which IRWD and the Trustee, among other things, make certain representations to, and agreements with, such Bond Depository with respect to the Bonds, the purchase and payment thereof, and delivery of notices with respect thereto.

“Reserve Account” means the account so defined and created in the Indenture.

“Reserve Account Terms Certificate” means the certificate delivered by IRWD to the Trustee in connection with IRWD’s election to fund the Reserve Account.

“Reserve Requirement” means the amount, if any, to be maintained in the Reserve Account upon the election of IRWD to fund the Reserve Account, as specified in the Reserve Account Terms Certificate.

“Resolution” means Resolution No. 2008-11 of the Board of Directors of IRWD, adopted on March 10, 2008.

“Rule 15c2-12” means Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as it may from time to time be amended and supplemented.

“Seasoned Funds” means (i) monies derived from drawings under the Letter of Credit, (ii) monies received by the Trustee and held in Funds and accounts created under the Indenture for a period of at least 124 days and not commingled with any monies so held for less than said period and during and prior to which period no petition in bankruptcy was filed by or against IRWD under the United States Bankruptcy Code, (iii) monies with respect to which the Trustee shall have received an opinion of counsel experienced in matters pertaining to the United States Bankruptcy Code acceptable to each Rating Agency to the extent each such rating agency is then rating the Bonds, that the contemplated use of such monies would not constitute a transfer of property voidable under Section 544 or 547 of the United States Bankruptcy Code, should IRWD become a debtor under such Code or (iv) investment income derived from the investment of monies described in clause (i), (ii) or (iii).

“Securities Depositories” means: The Depository Trust Company, 55 Water Street, 50th Floor, New York, New York, 10041-0099, Attn: Call Notification Department, Fax (212) 855-7232; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses as such depositories may specify and/or such other securities depositories as IRWD may designate in a Written Request of IRWD delivered to the Trustee.

“Semi-Annual Mode” means the Mode in which the duration of each Adjustment Period is determined in accordance with clause (e) of the definition of Adjustment Period.

“Serial Bonds” shall be the Bonds maturing on the Serial Maturity Dates, as determined pursuant to the Indenture.

“Serial Maturity Dates” means the dates on which the Serial Bonds mature, as determined pursuant to the Indenture.

“Serial Payments” mean the payments to be made in payment of the principal of the Serial Bonds on the Serial Maturity Dates.

“Short-Term Mode” means the Daily Mode, the Weekly Mode, the Monthly Mode, the Semi-Annual Mode, the Annual Mode and the VIP Pricing Short-Term Mode.

“SIFMA” means the Securities Industry and Financial Markets Association, its successors and assigns.

“SIFMA Index” means the “SIFMA Municipal Swap Index” (such index previously known as the “BMA Municipal Swap Index”) announced by Municipal Market Data from time to time and based upon the weekly interest rate resets of Tax-Exempt variable rate issues included in a database maintained by Municipal Market Data which meets specified criteria established by SIFMA. The SIFMA Index shall be based upon current yields of high-quality weekly adjustable variable rate demand bonds which are subject to tender upon seven days notice, the interest on which is Tax-Exempt and not subject to any

personal “alternative minimum tax” or similar tax under the Code unless all Tax-Exempt securities are subject to such tax.

“**S&P**” means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, a corporation duly organized and existing under and by virtue of the laws of the State of New York, and its successors and assigns, except that if such division shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term “S&P” shall be deemed to refer to any other nationally recognized securities rating agency selected by IRWD and approved by the Bank (which shall not be under any liability by reason of such approval).

“**State**” means the State of California.

“**Substitution Date**” means the date upon which an Alternate Letter of Credit is substituted for the Letter of Credit then in effect.

“**Tax Certificate**” means that certificate signed by IRWD on the date of the initial issuance of the Bonds relating to the requirements of Sections 103 and 141-150 of the Code.

“**Tax-Exempt**” means, with respect to interest on any obligations of a state or local government, including the Bonds, that such interest is excluded from gross income for federal income tax purposes (other than in the case of a holder of any such obligation who is a substantial user of the facilities financed with such obligations or a related person within the meaning of Section 147(a) of the Code) whether or not such interest is includable as an item of tax preference or otherwise includable directly or indirectly for purposes of calculating tax liabilities, including any alternative minimum tax or environmental tax, under the Code.

“**Tender Deadline**” means (i) during the Daily Mode, 11:00 a.m. on any Business Day and (ii) during the Weekly Mode, at 5:00 p.m. on the Business Day seven days prior to the applicable Purchase Date. Any Tender Notice given after the applicable Tender Deadline shall be deemed to have been received on the next succeeding Business Day.

“**Tender Notice**” means a written notice or, if the Bonds are in the Daily Mode, telephonic notice, immediately confirmed in writing, that states (i) the CUSIP number, if applicable, the principal amount of such Bond and the principal amount of such Bond to be purchased pursuant to provisions of the Indenture, (ii) the Purchase Date on which such Bond is to be purchased, (iii) applicable payment instructions with respect to the Bonds being tendered for purchase and (iv) an irrevocable demand for such purchase.

“**Trustee**” means The Bank of New York Trust Company, N.A., a national banking association duly incorporated and existing under and by virtue of the laws of the United States of America, or any other bank or trust company duly incorporated and existing under and by virtue of the laws of any state or of the United States of America, which may be substituted in its place as provided in the Indenture.

“**Variable Index**” means the SIFMA Index. If for any reason the SIFMA Index for any Rate Determination Date is not announced or is otherwise unavailable or is held to be invalid or unenforceable by a court of law, the Variable Index for such Rate Determination Date shall be an index selected by the Remarketing Agent which is a composite of bid-side yields of obligations (a) which (i) provide for a weekly adjustment of the interest rate, and (ii) which (A) must be purchased on demand of the owner thereof at any time upon notice of up to seven (7) days or (B) are payable in full not later than seven (7) days after the date of evaluation and (b) the interest on which is Tax-Exempt and is not subject to any personal “alternative minimum tax” or similar tax under the Code unless all Tax-Exempt securities are

subject to such tax. If no such index is so selected by the Remarketing Agent or if any such index is held to be invalid or unenforceable by a court of law, the Variable Index for such rate determination date shall be an index computed by the Remarketing Agent and shall be equal to 95% of the yield applicable to 91-day United States Treasury bills, such yield to be computed on the basis of the coupon equivalent of the average per annum discount rate at which such Treasury bills shall have been sold at the most recent Treasury auction conducted prior to such rate determination date.

“VIP Pricing Bond” means any Bond while in the VIP Pricing Short-Term Mode or the VIP Pricing Long-Term Mode.

“VIP Pricing Long-Term Mode” means the Mode in which the duration of each Adjustment Period is determined in accordance with clause (b) of the definition of Adjustment Period and each such Adjustment Period is greater than one year.

“VIP Pricing Short-Term Mode” means the Mode in which the duration of each Adjustment Period is determined in accordance with clause (b) of the definition of Adjustment Period and each such Adjustment Period is equal to or less than one year.

“Water Code” means the California Water Code, as amended.

“Weekly Mode” means the Mode in which the duration of each Adjustment Period is determined in accordance with the definition of Adjustment Period.

Certain Terms of the Bonds

Transfer and Exchange of Bonds. All Bonds are transferable or exchangeable by the Owner thereof, in person or by the Owner’s attorney duly authorized in writing, at the principal corporate trust office of the Paying Agent in the Bond Register, upon surrender of such Bonds accompanied by delivery of a duly executed written instrument of transfer or exchange in a form approved by the Paying Agent. Whenever any Bond or Bonds shall be surrendered for transfer or exchange, the Paying Agent shall execute and deliver a new Bond or Bonds of Authorized Denominations of the same aggregate principal amount and terms, except that the Paying Agent may require the payment by any Owner requesting such transfer or exchange of any tax or other governmental charge required to be paid with respect to such transfer or exchange. All Bonds surrendered pursuant to the provisions of the Indenture shall be cancelled by the Paying Agent, shall not be redelivered and shall be disposed of as directed by IRWD and shall be in the same Mode as the Bonds in exchange for which such Bonds were issued.

Bond Register. The Paying Agent will keep at its principal corporate trust office the Bond Register for the registration of the ownership, transfer or exchange of the Bonds, which Bond Register shall be available for inspection by IRWD and the Trustee at reasonable hours and under reasonable conditions; and upon presentation for such purpose the Paying Agent shall, under such reasonable regulations as it may prescribe, register the ownership, transfer or exchange of the Bonds in the Bond Register as provided in the Indenture. The ownership of any Bonds may be proved by the Bond Register required to be kept by the Paying Agent pursuant to the provisions of the provisions of the Indenture.

Temporary Bonds. The Bonds may be initially delivered in temporary form exchangeable for definitive Bonds when ready for delivery, which temporary Bonds shall be printed, lithographed or typewritten, shall be of such denominations as may be determined by the Trustee, shall be in fully registered form and shall contain such reference to any of the provisions of the Indenture as may be appropriate. Every temporary Bond shall be authenticated and delivered by the Trustee upon the same conditions and terms and in substantially the same manner as definitive Bonds. If the Trustee

authenticates and delivers temporary Bonds, IRWD will prepare and execute and the Trustee will authenticate definitive Bonds without delay, and in that case upon demand of the Owner of any temporary Bonds such definitive Bonds shall be exchanged without cost to such Owner for temporary Bonds at the office of the Trustee upon surrender of such temporary Bonds, and until so exchanged such temporary Bonds shall be entitled to the same benefit, protection and security under the Indenture as the definitive Bonds executed and delivered under the Indenture. All temporary Bonds surrendered pursuant to the provisions of the Indenture summarized under this caption shall be cancelled by the Trustee, shall not be redelivered and shall be disposed of as directed by IRWD.

Bond Mutilated, Destroyed, Lost or Stolen. If any Bond shall become mutilated, the Trustee shall authenticate and deliver a new Bond of like tenor and number in lieu of the mutilated Bond, but only upon surrender to the Trustee of the mutilated Bond, and every mutilated Bond surrendered to the Trustee shall be cancelled by it and shall not be redelivered and shall be disposed of as directed by IRWD. If any Bond shall be destroyed, lost or stolen, evidence of such destruction, loss or theft may be submitted to the Trustee and if such evidence is satisfactory to the Trustee, and the Trustee and IRWD receive indemnity satisfactory to them, the Trustee shall authenticate and deliver a new Bond of like tenor and number in substitution for the destroyed, lost or stolen Bond. The Trustee may require payment of a sum not exceeding the actual cost of preparing each new Bond authenticated and delivered by it under this paragraph and of the expenses which may be incurred by it under this paragraph. Any replacement Bond authenticated and delivered under the provisions of this paragraph in lieu of or in substitution for any mutilated, destroyed, lost or stolen Bond shall be equally and proportionately entitled to the benefit, protection and security under the Indenture with all other Bonds executed and delivered under the Indenture; and the Trustee shall not be required to treat both the original Bond and any replacement Bond as being Outstanding for the purpose of determining the principal amount of Bonds which may be authenticated and delivered under the Indenture or for the purpose of determining any percentage of Bonds Outstanding under the Indenture, but both the original and the replacement Bond shall be treated as one and the same. Notwithstanding any other provision of this paragraph, rather than authenticating and delivering a new Bond for a mutilated, destroyed, lost or stolen Bond which has matured, has been called for redemption or has become subject to mandatory purchase, the Trustee may make payment of the principal of such mutilated, destroyed, lost or stolen Bond directly to the Owner thereof under such regulations as the Trustee may prescribe. To the extent permitted by law, IRWD agrees to indemnify and hold harmless the Trustee from and against any claims, damages and losses (including legal fees and expenses), arising out of payment of principal of any stolen Bond.

Funds and Accounts

Purchase Fund. There is established by the Indenture and there shall be maintained with the Paying Agent, as agent for the Trustee, a separate fund to be known as “Bonds of Irvine Ranch Water District, Consolidated Refunding Series 2008A, Purchase Fund” (the “Purchase Fund”). The Paying Agent shall further establish a separate account within the Purchase Fund to be known as the “Letter of Credit Purchase Account” and a separate account within the Purchase Fund to be known as the “Remarketing Proceeds Account.”

Remarketing Proceeds Account. Upon receipt of the proceeds of a remarketing of Bonds on a Purchase Date or Mandatory Purchase Date, the Paying Agent shall deposit such proceeds in the Remarketing Proceeds Account for application to the Purchase Price of the Bonds in accordance with the provisions of the Indenture. Notwithstanding the foregoing, upon the receipt of the proceeds of a remarketing of Bank-Owned Bonds, the Paying Agent shall immediately pay such proceeds to the Bank to the extent of any amount owing to the Bank.

Letter of Credit Purchase Account. Upon receipt from the Trustee of the immediately available funds transferred to the Paying Agent from draws on the Letter of Credit, the Paying Agent shall deposit such money in the Letter of Credit Purchase Account for application to the Purchase Price of the Bonds to the extent that the monies on deposit in the Remarketing Proceeds Account shall not be sufficient. Any amounts deposited in the Letter of Credit Purchase Account and not needed with respect to any Purchase Date or Mandatory Purchase Date for the payment of the Purchase Price for any Bonds shall be immediately returned to the Bank.

Investment. Amounts held in the Letter of Credit Purchase Account and the Remarketing Proceeds Account by the Paying Agent shall be held uninvested.

Bond Payment Fund. There is established and created a fund with the Trustee to be designated the “Bonds of Irvine Ranch Water District, Consolidated Refunding Series 2008A, Bond Payment Fund” (the “Bond Payment Fund”). The Trustee shall transfer money contained in the Bond Payment Fund to the accounts described below at the following respective times in the manner provided in the Indenture, which accounts the Trustee agrees to establish and maintain so long as the Indenture is not discharged in accordance with the defeasance provisions of the Indenture and each such account shall constitute a trust fund for the benefit of the Owners of the Bonds and the Bank, and the money in each such account shall be disbursed only for the purposes and uses authorized in the Indenture.

Interest Account. When a Letter of Credit is in effect, the Trustee, on each Interest Payment Date, shall withdraw and apply monies in the Interest Account, if any, to reimburse the Bank for draws on the Letter of Credit. When no Letter of Credit is in effect, the Trustee, on each Interest Payment Date, shall deposit in the Interest Account from money in the Bond Payment Fund an amount which, together with amounts already on deposit in the Interest Account and (when the Bonds are in the Fixed Rate Mode) any required transfer from the Fixed Rate Reserve Account, shall be sufficient to pay interest payable on the Outstanding Bonds on such Interest Payment Date. Money in the Interest Account shall be used and withdrawn by the Trustee on each Interest Payment Date solely for the payment of interest on the Outstanding Bonds or reimbursement of the Bank for such payment, as aforesaid.

Principal Account. When a Letter of Credit is in effect, the Trustee, on each Principal Payment Date, shall withdraw and apply monies in the Principal Account, if any, to reimburse the Bank for draws on the Letter of Credit. When no Letter of Credit is in effect, the Trustee, on each Principal Payment Date, shall deposit in the Principal Account from money in the Bond Payment Fund an amount which, together with (when the Bonds are in the Fixed Rate Mode) any required transfer from the Fixed Rate Reserve Account, shall be sufficient to pay the principal becoming due on each Principal Payment Date. Money in the Principal Account shall be used and withdrawn by the Trustee on each Principal Payment Date solely for the payment of the principal of Outstanding Bonds or reimbursement of the Bank for such payment, as aforesaid.

Redemption Account. When the Letter of Credit is in effect, the Trustee shall deposit in the Redemption Account amounts received from IRWD to pay the premium on Bonds to be redeemed.

Letter of Credit Account. When the Letter of Credit is in effect, money in the Letter of Credit Account shall be used and withdrawn by the Trustee on each Interest Payment Date, each Principal Payment Date and each Redemption Date and used to pay the interest on and principal of the Bonds (whether at maturity, redemption or acceleration).

Costs of Issuance Fund. There is established and created a fund in the treasury of IRWD to be designated “Bonds of Irvine Ranch Water District, Consolidated Refunding Series 2008A, Costs of Issuance Fund” (the “Costs of Issuance Fund”). The Bond proceeds deposited in the Costs of Issuance

Fund shall be apportioned by IRWD among the respective Improvement Districts according to each Improvement District's Included Percentage. All moneys on deposit in the Costs of Issuance Fund shall be applied by IRWD for the payment of the costs of issuing the Bonds, including printing costs, rating agency fees, the fees and expenses of co-bond counsel, the Trustee, the Paying Agent, the Remarketing Agent, CUSIP Service Bureau charges and other costs and expenses of IRWD relating to the issuance and sale of the Bonds.

Investments. So long as the Bonds are Outstanding and there is no default under the Indenture, monies on deposit to the credit of the Bond Payment Fund, except for monies on deposit in the Letter of Credit Account, shall, at the telephonic request of an IRWD Representative, confirmed in writing within two Business Days, specifying and directing that such investment of such funds be made, be invested by the Trustee in Permitted Investments. In the absence of written instruction from an IRWD Representative, the Trustee is directed to invest available funds in Permitted Investments described in paragraph (x) of the definition thereof. Monies on deposit in the Letter of Credit Account shall be held uninvested. Subject to the limitations contained in Government Code Section 53601, monies held by IRWD in the Funds and accounts established under the Indenture shall be invested by IRWD in Permitted Investments; provided, however, that any Seasoned Funds which are required to pay the redemption price of any Bonds for which notice of redemption has been given pursuant to the Indenture may be invested only in direct obligations of the United States of America which mature not later than 30 days from the date of purchase or on the applicable Redemption Date, whichever first occurs. The Trustee is entitled to rely conclusively on said instructions and shall have no duty to monitor the compliance thereof with the restrictions set forth in the Indenture. Such investments shall have maturity dates, or shall be subject to redemption by the holder, at the option of the holder, on or prior to the dates the monies invested therein will be needed for the purposes of such Funds.

The Trustee may commingle any of the money held by it under the Indenture, except money derived from draws under the Letter of Credit or Seasoned Funds, which shall not be commingled with any other funds under any circumstances. The Trustee may present for redemption or sell any such deposit or investment whenever it shall be necessary in order to provide money to meet any payment of the money so deposited or invested. The Trustee shall not be liable or responsible for any depreciation or any losses resulting from any such deposit or investment presented for redemption or sold. The Trustee is not liable to IRWD or any other person in the event that any investment made in accordance with the written instructions of IRWD shall cause the Bonds to be come arbitrage bonds within the meaning of Section 148 of the Code or shall cause any person to incur any liability or rebates or other monies payable pursuant to the Code.

Any interest or profits on deposits and investments in the Bond Payment Fund received by the Trustee shall be deposited in the Interest Account as a credit against interest to come due on the Outstanding Bonds. Any interest or profits on deposits and investments in the Costs of Issuance Fund shall be retained therein.

Reserve Account. There is established and created an account in the treasury of IRWD to be designated "Bonds of Irvine Ranch Water District, Consolidated Series 2008A, Reserve Account" (the "Reserve Account"). The Reserve Account shall not be initially funded and will only be funded and applied in the absolute discretion of IRWD in accordance with the Reserve Account Terms Certificate. In the event IRWD funds the Reserve Account, it shall be maintained, used, transferred, reimbursed and liquidated as follows:

In the event there are insufficient funds in the General Obligation Bond Fund with respect to an Improvement District to fully reimburse the Bank on such date in respect of such Improvement District's Included Percentage of the amount drawn on the Letter of Credit, IRWD shall immediately transfer from

the Reserve Account and pay to the Bank, to the extent amounts are available in the Reserve Account for the account of such Improvement District for such purpose, an amount necessary to fully reimburse the Bank for the draw on the Letter of Credit in respect of such Improvement District.

If on July 1 of any year, the amount in the Reserve Account is less than an amount equal to the Reserve Requirement, the Reserve Account shall be restored by the inclusion in the next annual assessment of an amount sufficient to replenish the Reserve Account pursuant to Section 35911 of the Water Code and, when received, such amount shall be deposited by IRWD in the Reserve Account. Provided, however, that to the extent that the amount in the Reserve Account has been restored to the Reserve Requirement prior to the time of fixing the next annual assessment, said inclusion need not be made.

If on the first Business Day of any month, the amount on deposit in the Reserve Account with respect to an Improvement District exceeds such Improvement District's Included Percentage of the Reserve Requirement, such excess shall be withdrawn by IRWD and deposited in the General Obligation Bond Fund for the account of such Improvement District and used to pay interest to become due with respect to such Improvement District or to reimburse the Bank for the draw on the Letter of Credit in respect of such Improvement District.

If at any time the amount on deposit in the Reserve Account with respect to an Improvement District is sufficient to pay, whether by redemption or at maturity, such Improvement District's Included Amount, premium, if any, and interest thereon that will accrue to the Redemption Date or Maturity Date, all amounts on deposit in the Reserve Account with respect to such Improvement District shall be withdrawn by IRWD and used to pay the principal of and interest on such Improvement District's Included Amount, or transferred to the Trustee for deposit in the Redemption Account, at the times and in the amounts required for the payment of such Improvement District's Included Amount, premium, if any, and interest thereon.

Certain Covenants

Payment of Bonds. IRWD will promptly pay the principal of, premium, if any, and interest on the Bonds on the dates and in the manner provided in the Bonds, but only from the sources available therefor under the Indenture. IRWD will provide the Trustee sufficient monies to enable the Trustee to make all payments of principal of, premium, if any, and interest on the Bonds as provided in the Indenture and the Bonds, except that IRWD will pay directly to the Bank all amounts payable in respect of Bank-Owned Bonds.

Collection of Assessments and Charges, General Obligation Bond Fund. To the extent necessary to pay principal of and interest on the Included Amount for each respective Improvement District, IRWD will (a) impose and collect or cause the imposition and collection of ad valorem assessments on land in the Improvement Districts, (b) pursue any remedy available to collect, or cause the collection of, delinquent ad valorem assessments and apply amounts realized from the sale of any property for delinquent ad valorem assessments for such purpose, or (c) in its discretion, impose and collect, or cause the imposition and collection of, charges for water or sewer service, as applicable, in the Improvement Districts in lieu of ad valorem assessments.

There is established and created a fund in the treasury of IRWD to be designated "Bonds of Irvine Ranch Water District, Consolidated Refunding Series 2008A, General Obligation Bond Fund" (the "General Obligation Bond Fund"), together with an account within such Fund for each Improvement District, which IRWD agrees to maintain as long as the Indenture is not discharged in accordance with the provisions of the Indenture. Additionally, IRWD may deposit other available monies in such Fund and

such monies shall be apportioned to each Improvement District within the Fund according to each Improvement District's Included Percentage. The assessments and charges levied upon and collected within any Improvement District shall not exceed the amount required to pay such Improvement District's Included Amount, premium, if any, and interest thereon. Monies raised by each Improvement District for this purpose shall be deposited to the Improvement District's account within the General Obligation Bond Fund and shall be used solely for the purpose of paying such Improvement District's Included Amount, premium, if any, and interest thereon. Except as provided below, IRWD shall transfer from the General Obligation Bond Fund (i) while the Letter of Credit is in effect, to the Bank monies at such times and in such amounts as are sufficient to reimburse the Bank, in accordance with the terms of the Reimbursement Agreement, for draws made on the Letter of Credit pursuant to the provisions of the Indenture; provided, however, that to the extent monies are available in the Principal Account or the Interest Account to pay the principal of or interest on the Bonds, the Trustee shall withdraw and apply monies in the Principal Account or the Interest Account, as appropriate, as directed in writing by IRWD to reimburse the Bank for draws made on the Letter of Credit pursuant to the provisions of the Indenture, and (ii) while no Letter of Credit is in effect, to the Trustee for deposit in the Bond Payment Fund monies at such times and in such amounts as are sufficient for the Trustee to make the transfers from the Bond Payment Fund as provided in the Indenture.

Further Assurances. IRWD will execute and deliver such supplemental indentures and such further instruments, and do such further acts, as the Trustee may reasonably require for the purpose of assuring and confirming to the Trustee the amounts from the sources available under the Indenture for the payment of the Bonds.

Tax Covenants; Rebate Fund. (a) In addition to the other Funds and accounts created pursuant to the Indenture, IRWD shall establish and maintain a Fund separate from any other Fund or account established and maintained under the Indenture designated the "Bonds of Irvine Ranch Water District, Consolidated Refunding Series 2008A, Rebate Fund" (the "Rebate Fund"). There shall be deposited in the Rebate Fund such amounts as are required to be deposited therein pursuant to the Tax Certificate. All money at any time deposited in the Rebate Fund shall be held by IRWD in trust, to the extent required to satisfy the Rebate Requirement, for payment to the United States of America. Notwithstanding defeasance of the Bonds pursuant to the provisions of the Indenture or anything to the contrary contained in the Indenture, all amounts required to be deposited into or on deposit in the Rebate Fund shall be governed exclusively by the provisions of the Indenture summarized under this caption and by the Tax Certificate (which is incorporated in the Indenture by reference).

(b) Any funds remaining in the Rebate Fund after payment in full of all of the Bonds and after payment of any amounts described in paragraph (2) of this paragraph (b), shall be withdrawn and retained by IRWD.

IRWD shall pay to the United States of America out of amounts in the Rebate Fund,

(1) not later than 30 days after the end of the fifth Bond Year (as defined in the Rebate Certificate) and not less frequently than once each five years thereafter, an amount equal to at least 90% of the Rebate Requirement; and

(2) not later than 60 days after the retirement of all of the Bonds, an amount equal to 100% of the Rebate Requirement (determined as of the date of the retirement of all Bonds).

In the event that, prior to the time of any required payment out of the Rebate Fund, the amount in the Rebate Fund is not sufficient to make such payment when such payment is due, IRWD shall deposit an amount equal to such deficiency into the Rebate Fund prior to the time such payment is due. Each

payment required to be made pursuant to this paragraph (b) shall be made to the United States of America on or before the date such payment is due, as set forth in the Tax Certificate.

In the event that on the first day of any Bond Year the amount credited to the Rebate Fund exceeds the Rebate Requirement, IRWD shall withdraw the excess from the Rebate Fund and when a Letter of Credit is in effect apply such excess to reimburse the Bank for the draw on the Letter of Credit for the payment of interest on the Bonds, or when no Letter of Credit is in effect, transfer such excess to the Trustee for credit to the Interest Account of the Bond Payment Fund.

For purposes of crediting amounts to the Rebate Fund or withdrawing amounts from the Rebate Fund, Nonpurpose Investments shall be valued in the manner provided in the Tax Certificate.

(c) On or before the first day of each Bond Year, an amount shall be deposited to the Rebate Fund by IRWD, if and to the extent required, so that the balance of the Rebate Fund shall equal the Rebate Requirement for the Bond Year commencing on such first day.

(d) IRWD shall not use or permit the use of any proceeds of Bonds or any funds of IRWD, directly or indirectly, to acquire any securities or obligations, and shall not take or permit to be taken any other action or actions, which would cause any Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Code or “federally guaranteed” within the meaning of Section 149(b) of the Code and any such applicable requirements promulgated from time to time thereunder and under Section 103(c) of the Internal Revenue Code of 1954, as amended. IRWD shall observe and not violate the requirements of Section 148 of the Code and any such applicable regulations. IRWD shall comply with all requirements of Sections 148 and 149(d) of the Code to the extent applicable to the Bonds. In the event that at any time IRWD is of the opinion that for purposes of this paragraph (d) it is necessary to restrict or to limit the yield on the investment of any monies held by the Trustee or held by IRWD under the Indenture, IRWD shall so restrict or limit the yield on such investment or shall so instruct the Trustee in a detailed certificate, and the Trustee shall take such action as may be necessary in accordance with such instructions.

(e) IRWD specifically covenants to comply with the provisions and procedures of the Tax Certificate.

(f) IRWD shall not use or permit the use of any proceeds of the Bonds or any funds of IRWD, directly or indirectly, in any manner, and shall not take or omit to take any action that would cause any of the Bonds to be treated as an obligation not described in Section 103(a) of the Code.

(g) Notwithstanding any provisions of the provisions of the Indenture summarized under this caption, if IRWD shall provide to the Trustee an Opinion of Counsel that any specified action required under these provisions is no longer required or that some further or different action is required to maintain the exclusion of interest on the Bonds from gross income for purposes of federal income taxation, the Trustee and IRWD may conclusively rely on such opinion in complying with such requirements and, notwithstanding the provisions of the Indenture relating to amendments or supplements thereto, the covenants under the Indenture shall be deemed to be modified to that extent.

Continuing Disclosure. IRWD covenants and agrees that, at any time an Adjustment Period greater than 270 days in length is in effect with respect to the Bonds, or if otherwise required by Rule 15c2-12, it will undertake continuing disclosure requirements for the Bonds as promulgated under Rule 15c2-12, as it may from time to time be amended or supplemented. Notwithstanding any other provision of the Indenture, failure of IRWD to comply with the requirements of Rule 15c2-12 applicable to the Bonds, as it may from time to time be amended or supplemented, shall not be considered an Event of

Default; however, any Owner or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause IRWD to comply with its obligations under this paragraph. For purposes of this paragraph, "Beneficial Owner" means any Person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

Default and Limitations of Liability

Events of Default. If any of the following events occur, it is declared to constitute an "Event of Default":

(a) Default in the due and punctual payment of interest on any Bond, whether at the stated Interest Payment Date thereof, or upon redemption or purchase thereof pursuant to the provisions of the Indenture;

(b) Default in the due and punctual payment of the principal of or premium, if any, on any Bond, whether at the stated maturity thereof, or upon redemption or purchase thereof pursuant to the provisions of the Indenture;

(c) IRWD shall fail to observe or perform in any material way any covenant, condition, agreement or provision contained in the Bonds or in the Indenture on the part of IRWD to be performed other than those set forth in paragraphs (a) and (b) above, and such failure shall continue for 30 days after written notice specifying such failure and requiring the same to be remedied shall have been given to IRWD by the Trustee, which notice may be given by the Trustee in its discretion and shall be given by the Trustee at the written request of the Owners of not less than 25% in aggregate principal amount of all Bonds then Outstanding; provided, however, that, when a Letter of Credit is in effect, no such notice shall be given without the consent of the Bank and provided, further, that if said default be such that it cannot be corrected within the applicable period, it shall not constitute an Event of Default if corrective action is instituted by IRWD within the applicable period and diligently pursued until the default is corrected; or

(d) The Trustee receives written notice from the Bank that IRWD has not reimbursed the Bank for a drawing under the Letter of Credit to pay interest or that any other event of default has occurred and is continuing under the Reimbursement Agreement.

If an Event of Default occurs and is continuing, the Trustee will mail notice of the Event of Default to the Owners and the Bank as promptly as practicable after it occurs.

Acceleration. If, when a Letter of Credit is not in effect or the Bank has wrongfully dishonored a properly presented and conforming drawing under the Letter of Credit, an Event of Default described under paragraph (a) or (b) above occurs (a "payment default") and is continuing, or an Event of Default occurs under paragraph (c) or (d), the Trustee by notice to IRWD, or the Owners of at least 25% in aggregate principal amount of the Bonds then Outstanding by notice to IRWD and the Trustee, may declare the principal of and accrued interest on the Outstanding Bonds to be due and payable immediately. If, when a Letter of Credit is in effect, so long as the Bank has not wrongfully dishonored a properly presented and conforming drawing under the Letter of Credit, an Event of Default occurs and is continuing, the Trustee, upon the written direction of the Bank, by notice to IRWD, shall immediately declare the principal and accrued interest on the Outstanding Bonds to be due and payable. Upon any such declaration the principal of and accrued interest on the Outstanding Bonds shall be due and payable immediately. When a Letter of Credit is in effect, the Trustee shall, immediately upon a declaration of acceleration, draw upon the Letter of Credit to pay the principal of and interest on the Outstanding Bonds

other than Bank-Owned Bonds. Upon the receipt by the Trustee of the Bank's written direction to the Trustee to accelerate the Bonds, interest on such Bonds shall cease to accrue; except that interest on Bank-Owned Bonds shall continue to accrue until provision for the payment thereof is made in accordance with the Reimbursement Agreement. The Trustee shall upon the request of the Bank rescind an acceleration and its consequences if (1) no payment default has occurred and is continuing, (2) the Owners have not been notified of the acceleration, (3) the amount available to be drawn under the Letter of Credit has been reinstated so as to be available in an amount equal to the principal amount of the Bonds Outstanding, plus the applicable Letter of Credit Interest Amount and (4) the Bank has waived the event of default under the Reimbursement Agreement. Except as provided in this paragraph, neither the Trustee nor the Owners shall declare the Bonds to be due and payable. The Trustee shall be entitled to treat any dishonor of a drawing under the Letter of Credit as not wrongful unless and until a court of competent jurisdiction makes a final determination that such dishonor was wrongful.

Other Remedies. If an Event of Default occurs and is continuing, the Trustee may pursue any available remedy by proceeding at law or in equity to collect the principal of or interest on the Bonds or to enforce the performance of any provision of the Bonds, the Indenture or the Reimbursement Agreement. However, when a Letter of Credit is in effect and so long as the Bank has not wrongfully dishonored a drawing under the Letter of Credit, the Trustee will pursue any remedy only at the direction of the Bank.

The Trustee may maintain a proceeding even if it does not possess any of the Bonds or does not produce any of them in the proceeding. A delay or omission by the Trustee or any Owner in exercising any right or remedy accruing upon an Event of Default shall not impair the right or remedy or constitute a waiver of or acquiescence in the Event of Default. No remedy is exclusive of any other remedy. All available remedies are cumulative.

Waiver of Past Defaults. When a Letter of Credit is in effect and so long as the Bank has not wrongfully dishonored a properly presented and conforming drawing under the Letter of Credit, the Bank, and at all other times the Owners of a majority in principal amount of Outstanding Bonds, by notice to the Trustee may waive an existing Event of Default and its consequences; provided, however, that, when a Letter of Credit is in effect, no such waiver shall be effective unless and until the Letter of Credit has been reinstated so as to be available in an amount equal to the principal amount of the Bonds Outstanding, plus the applicable Letter of Credit Interest Amount and the Bank has waived the event of default under the Reimbursement Agreement. When an Event of Default is waived, it is cured and stops continuing, but no such waiver shall extend to any subsequent or other Event of Default or impair any right consequent to it.

Control by Bank or Majority of Owners. The Bank, when there is a Letter of Credit in effect and so long as the Bank has not wrongfully dishonored a drawing under the Letter of Credit, may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or of exercising any trust or power conferred on it. When there is no Letter of Credit in effect, the Owners of a majority in aggregate principal amount of Bonds Outstanding may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or of exercising any trust or power conferred on it; provided such Owners have satisfied the requirements under the Indenture for giving such instructions. However, regardless of whether the Bank or the Owners of a majority in aggregate principal amount of Bonds Outstanding are in control, the Trustee may refuse to follow any direction that it determines, in its sole opinion, conflicts with law or the Indenture or may result in the Trustee being exposed to personal liability or, except with respect to remedies being pursued at the direction of the Bank pursuant to the provisions of the Indenture summarized under the captions "- Acceleration" and "- Other Remedies," above, that the Trustee determines is unduly prejudicial to the rights of other Owners.

Limitation on Suits. The Bank, when a Letter of Credit is in effect and so long as the Bank has not wrongfully dishonored a properly presented and conforming drawing on the Letter of Credit, may

pursue any remedy available to the Trustee under the Indenture without the necessity of any action by the Trustee. An Owner may not pursue any remedy pursuant to the provisions of the Indenture summarized under the caption “- Other Remedies” above, or pursuant to the Bonds unless (a) the Owner gives the Trustee written notice stating that an Event of Default has occurred and is continuing, (b) the Owners of at least 25% in principal amount of the Outstanding Bonds make a written request to the Trustee to pursue the remedy, (c) such Owner or Owners offer to the Trustee indemnity satisfactory to the Trustee (in its sole opinion) against any loss, liability or expense, (d) the Trustee does not comply with such request within 60 days after receipt of the request and the offer of indemnity, and (e) either no Letter of Credit is in effect or the Bank has wrongfully dishonored a drawing on the Letter of Credit.

An Owner may not use the Indenture to prejudice the rights of another Owner or to obtain a preference or priority over any other Owner.

Rights of Owners to Receive Payment. Notwithstanding any other provision of the Indenture, the right of any Owner to receive payment of principal of and interest on a Bond, on or after the due dates expressed in the Bond, or the purchase price of a Bond on or after the date for its purchase as provided in the Bond, or to bring suit for the enforcement of any such payment on or after such dates, shall not be impaired or affected without the consent of the Owner.

Priorities. Except as provided under this caption, funds drawn under the Letter of Credit will be used only for the payment of principal of and interest on, and the purchase price of, the Bonds, as provided in the Letter of Credit. If the Trustee collects any money pursuant to the provisions of the Indenture, it shall pay out the money in the following order: first to the Trustee for amounts to which it is entitled under the provisions of the Indenture, (provided, that if such money constitutes proceeds of a draw under the Letter of Credit, the Trustee shall pay the Owners first and itself second); second to Owners (or to the Bank for the amount of any reimbursement obligation owing to it arising out of drawings made with the Letter of Credit, the proceeds of which were used to pay principal of and/or interest on the Bonds) for amounts due and unpaid on the Bonds for principal and interest, ratably, without preference or priority of any kind, according to the amount due and payable on the Bonds for principal and interest, respectively; third to the Bank to the extent it certifies that IRWD is indebted to it on account of draws under the Letter of Credit or otherwise under the Reimbursement Agreement; and fourth to IRWD.

The Trustee may fix a payment date for any payment to the Owners, subject to the provisions of the Indenture relating to acceleration of Bonds.

The Trustee, the Remarketing Agent and the Paying Agent

Employment and Duties of the Trustee. IRWD appoints and employs the Trustee to perform the obligations of the Trustee contained in the Indenture, all in the manner provided in the Indenture and subject to the conditions and terms of the Indenture.

Removal and Resignation of the Trustee. The Trustee may resign by notifying IRWD, subject to the conditions set forth below. The Owners of a majority in principal amount of the Outstanding Bonds may remove the Trustee by notifying the Trustee and may appoint a successor Trustee with the consent of IRWD and, when a Letter of Credit is in effect and so long as the Bank has not wrongfully dishonored a properly presented and conforming drawing on the Letter of Credit, the prior written consent of the Bank (which shall be under no liability by reason of giving or withholding such consent). IRWD will remove the Trustee by notifying the Trustee if (a) the Trustee fails to comply with the penultimate sentence of this paragraph, (b) the Trustee is adjudged a bankrupt or an insolvent, (c) a receiver or other public officer takes charge of the Trustee or its property or (d) the Trustee otherwise becomes incapable

of acting, as determined by IRWD. Upon any such removal or resignation, IRWD, with the prior written consent of the Bank, when a Letter of Credit is in effect and so long as the Bank has not wrongfully dishonored a properly presented and conforming drawing on the Letter of Credit (which consent shall not be unreasonably withheld, provided that the Bank shall be under no liability by reason of giving or withholding such consent), shall promptly appoint a successor Trustee by an instrument in writing, which successor Trustee shall give notice of such appointment to all Owners as soon as practicable; provided that in the event IRWD does not appoint a successor Trustee within 60 days following the giving of any such notice of removal or the receipt of any such notice of resignation, the removed or resigning Trustee may petition any appropriate court having jurisdiction to appoint a successor Trustee. Any successor Trustee shall be a bank, national banking association or trust company doing business and having a principal corporate trust office in either New York, New York or Los Angeles or San Francisco, California, having a combined capital (exclusive of borrowed capital) and surplus of at least \$50,000,000 and subject to supervision or examination by state or national authorities. If such bank, national 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 above referred to, then for these purpose the combined capital and surplus of such bank, national banking association or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

Any removal or resignation of a Trustee and appointment of a successor Trustee shall become effective only upon the acceptance of the appointment by the successor Trustee and the transfer by the retiring Trustee to the successor Trustee of all property held by it under the Indenture as Trustee, including the transfer to the successor Trustee of the Letter of Credit in accordance with its terms.

Protection of the Trustee. The Trustee shall be protected and shall incur no liability in acting or proceeding in good faith upon any affidavit, bond, certificate, consent, notice, request, requisition, resolution, statement, telegram, voucher, waiver or other paper or document which it shall in good faith believe to be genuine and to have been adopted, executed or delivered by the proper party or pursuant to any of the provisions of the Indenture, and the Trustee shall be under no duty to make any investigation or inquiry as to any statements contained or matters referred to in any such instrument, but may accept and rely upon the same as conclusive evidence of the truth and accuracy of such statements. The Trustee may consult with its counsel with regard to legal questions arising under the Indenture, and the opinion of such counsel shall be full and complete authorization and protection in respect to any action taken or suffered by it under the Indenture in the absence of negligence or willful misconduct.

Whenever in the observance or performance of its rights and obligations under the Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Indenture, such matter (unless other evidence in respect thereof be specifically prescribed in the Indenture) may be deemed to be conclusively proved and established by a certificate of an IRWD Representative, and such certificate shall be full warranty to the Trustee for any action taken or suffered under the provisions of the Indenture upon the faith thereof, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as it may deem reasonable.

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

The Trustee may act through agents or co-trustees (which co-trustees, if any, shall be approved by IRWD) and shall not be responsible for the misconduct or negligence of any agent or co-trustee appointed with due care.

The Trustee shall not be liable for any action it takes or omits to take in good faith without negligence which it believes to be authorized or within its rights or powers.

The Trustee makes no representation as to the validity or adequacy of the Indenture or the Bonds or compliance with any federal or state securities laws, shall not be accountable for IRWD's covenants and representations contained in the Indenture or the recitals made in the Indenture which are made by IRWD solely, and shall not be responsible for any statement in the Bonds other than its certificate of authentication.

The Trustee shall have no responsibility with respect to any information, statement or recital in any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the Bonds.

The Trustee shall not be deemed to have knowledge of an Event of Default hereunder, unless it shall have actual knowledge at its corporate trust office.

Duties of Trustee. (a) If an Event of Default has occurred and is continuing, the Trustee shall exercise its rights and powers and use the same degree of care and skill in their exercise as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

(b) Except during the continuance of an Event of Default,

(1) The Trustee need perform only those duties that are specifically set forth in the Indenture and no others, and no implied covenants or obligations shall be read into the Indenture against the Trustee, and

(2) In the absence of negligence or willful misconduct on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed, upon certificates or opinions furnished to the Trustee and conforming to the requirements of the Indenture. However, the Trustee shall examine these certificates and opinions to determine whether such documents conform to the requirements of the Indenture.

(c) The Trustee may not be relieved from liability for its own negligent action, its own negligent failure to act or its own wilful misconduct, except that

(1) This paragraph does not limit the effect of paragraph (b) above,

(2) The Trustee shall not be liable for any error of judgment made in good faith by a responsible officer of the Trustee, unless it is proved that the Trustee was negligent in ascertaining the pertinent facts,

(3) The Trustee shall not be liable with respect to any action it takes or omits to take in good faith in accordance with a direction received by it pursuant to the provisions of the Indenture summarized under the caption "- Control by Bank or Majority of Owners," and

(4) No provision of the Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties under the

Indenture or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

(d) Whether or not therein expressly provided, every provision of the Indenture that in any way relates to the Trustee is subject to all the foregoing paragraphs.

(e) The Trustee may refuse to perform any duty or exercise any right or power unless it receives indemnity satisfactory to it (in its sole opinion) against any loss, liability or expense, but the Trustee shall not require indemnity as a condition to declaring the principal of and interest on the Bonds to be due immediately, to drawing on the Letter of Credit, redeeming Bonds or making payment on the Bonds.

(f) The Trustee shall not be liable for interest on any cash held by it except as provided by the provisions of the Indenture summarized under the caption “- Investments” and as the Trustee may otherwise agree with IRWD.

(g) The permissive right of the Trustee to act under the Indenture shall not be construed as a duty.

Appointment of Remarketing Agent. IRWD appoints the Remarketing Agent to remarket Bonds pursuant to the Indenture, and to keep such books and records as shall be consistent with prudent industry practice and to make such books and records available for inspection by the Bank, IRWD, the Paying Agent and the Trustee at all reasonable times, and to give telegraphic or telephonic notice, promptly confirmed by a written notice, to the Trustee (who shall then promptly notify the Bank and the Paying Agent), specifying (i) the principal amount of such Bonds, if any, remarketed by it as provided in the Indenture, and (ii) the interest rates on the remarketed Bonds as determined pursuant to and in accordance with the Indenture.

The Remarketing Agent may at any time resign and be discharged of the duties and obligations created by the Indenture by giving at least 90 days' notice to the Bank, IRWD, the Paying Agent and the Trustee. The Remarketing Agent may be removed at any time, at the direction of IRWD, upon 60 days' prior written notice by an instrument filed with the Remarketing Agent and the Paying Agent. Any successor Remarketing Agent shall be selected by IRWD and shall be a member of FINRA, shall have a capitalization of at least \$50,000,000 and shall be authorized by law to perform all the duties set forth in the Indenture. When a Letter of Credit is in effect and so long as the Bank has not wrongfully dishonored a properly presented and conforming drawing on the Letter of Credit, IRWD shall obtain the Bank's prior written consent to the appointment of such successor Remarketing Agent, which consent may be withheld only for reasons related to the successor's capitalization and which shall not be unreasonably withheld (provided that the Bank shall be under no liability by reason of giving or withholding such consent). IRWD's delivery to the Trustee of a certificate setting forth the effective date of the appointment of a successor Remarketing Agent and the name of such successor shall be conclusive evidence that (i) if applicable, the predecessor Remarketing Agent has been removed in accordance with the provisions of the Indenture and (ii) such successor has been appointed and is qualified to act as Remarketing Agent under the terms of the Indenture.

Appointment of Paying Agent. IRWD appoints the Paying Agent to authenticate and deliver the Bonds as provided in the Indenture and to hold all Bonds delivered to it pursuant to the Indenture in trust for the benefit of the respective Owners who shall have so delivered such Bonds until monies representing the purchase price of such Bonds shall have been delivered to or for the account of or to the order of such Owners, to hold all money delivered to it for the purchase of Bonds in trust for the benefit

of the person or entity which shall have so delivered such money until the Bonds purchased with such money shall have been delivered to or for the account of such person or entity.

The Paying Agent may at any time resign and be discharged of the duties and obligations set forth in the Indenture by giving at least 60 days' notice to the Bank, IRWD, the Remarketing Agent and the Trustee. The Paying Agent may be removed at any time, at the direction of IRWD, by an instrument filed with the Paying Agent and the Trustee. The resignation or removal of the Paying Agent shall become effective only upon the acceptance of the appointment by the successor Paying Agent or the assumption of all duties and responsibilities of the Paying Agent by the Trustee. Any successor Paying Agent shall be a trust company, commercial bank or national banking association, in each case and with trust powers, doing business and having an office in New York, New York or Los Angeles, California, and shall be appointed by IRWD, with the consent of the Trustee and, when a Letter of Credit is in effect and so long as the Bank has not wrongfully dishonored a properly presented and conforming drawing on the Letter of Credit, the prior written consent of the Bank (provided that the Bank shall be under no liability by reason of giving or withholding such consent), in the same manner provided in the provisions of the Indenture summarized under the caption "- Removal and Resignation of the Trustee" for appointment of a successor Trustee.

Any removal or resignation of a Paying Agent and appointment of a successor Paying Agent shall become effective only upon the acceptance of the appointment by the successor Paying Agent and the transfer by the retiring Paying Agent to the successor Paying Agent of all property held by it under the Indenture as Paying Agent.

Successor Trustee, Remarketing Agent or Paying Agent by Merger. If the Trustee, Remarketing Agent or Paying Agent consolidates with, merges or converts into, or transfers all or substantially all of its assets (or, in the case of a bank, national banking association or trust company, its corporate assets) to, another corporation, the resulting, surviving or transferee corporation without any further act shall be the successor Trustee, Remarketing Agent or Paying Agent.

Amendment of or Supplement to the Indenture

Amendment or Supplement by Consent of Owners. Subject to certain provisions of the Indenture, the Indenture, the Bonds and the rights and obligations of IRWD, the Trustee, the Paying Agent, the Remarketing Agent, the Bank and the Owners under the Indenture may be amended or supplemented at any time by an amendment of or supplement to the Indenture which shall become binding when the written consents of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, exclusive of Bonds disqualified as provided in the provisions of the Indenture and the prior written consent of the Bank when a Letter of Credit is in effect and so long as the Bank has not wrongfully dishonored a properly presented and conforming drawing on the Letter of Credit (provided that the Bank shall be under no liability by reason of giving or withholding such consent), are filed with the Trustee. No such amendment or supplement shall (1) reduce the rate of interest on any Bond or extend the time of payment thereof or reduce the amount of principal or redemption premiums, if any, on any Bond or extend the Principal Payment Dates thereof without the prior written consent of the Owner of the Bond so affected, or (2) reduce the percentage of Owners whose consent is required for the execution of any amendment of or supplement to the Indenture, or (3) modify any of the rights or obligations of the Trustee, the Paying Agent, the Bank or the Remarketing Agent without its prior written consent thereto.

The Indenture, the Bonds and the rights and obligations of IRWD, the Trustee, the Paying Agent, the Remarketing Agent, the Bank and the Owners under the Indenture may also be amended or supplemented at any time by an amendment of or supplement to the Indenture which shall become binding upon execution without the written consent of any Owners, but with the prior written consent of

the Bank when a Letter of Credit is in effect and so long as the Bank has not wrongfully dishonored a properly presented and conforming drawing on the Letter of Credit (provided that the Bank shall be under no liability by reason of giving or withholding such consent), and (if the amendment or supplement modifies any of the rights or obligations of the Paying Agent or the Remarketing Agent under the Indenture) with the written consent of the Paying Agent or the Remarketing Agent, as applicable, only after receipt of a Favorable Opinion of Bond Counsel and only for any one or more of the following purposes -

(i) to add to the conditions, covenants and terms contained in the Indenture required to be observed or performed by IRWD, other conditions, covenants and terms thereafter to be observed or performed by IRWD, or to surrender any right reserved in or conferred in the Indenture on IRWD, and which in either case shall not adversely affect the interests of the Owners;

(ii) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Indenture or in regard to questions arising under the Indenture which IRWD may deem desirable or necessary, and which shall not adversely affect the interests of the Owners;

(iii) to comply with the requirements of each Rating Agency;

(iv) to transfer any Fund or account created in the Indenture held by IRWD as well as any money on deposit in any such Fund or account to the Trustee and to make such provisions for the purpose of correcting or supplementing any provision contained in the Indenture to reflect the transfer of such Fund or account;

(v) to make such provisions for the purpose of correcting or supplementing any provision contained in the Indenture relating to the use of the Reserve Account and any monies deposited therein which shall not adversely affect the interests of the Owners; or

(vi) to provide for (or subsequently modify) an additional Mode for the Bonds and the provisions relating thereto. Such amendment shall be accompanied by a Favorable Opinion of Bond Counsel and shall specify the period for payment of the interest, the intervals and dates at which the rate will be set by the Remarketing Agent and the intervals and procedures by which the Bonds may be tendered for purchase.

A change to an additional Mode from another interest rate determination method will cause a mandatory purchase of the Bonds. The effective date of a change to an additional Mode cannot be after the Conversion Date.

Each additional Mode interest rate will be set at the minimum rate necessary for the Remarketing Agent to sell the Bonds on the day the rate is to take effect at their principal amount plus accrued interest, if any.

The amendment shall establish an index and/or method by which the rate will be set, to be used in the event that for any reason the Remarketing Agent does not set an additional Mode interest rate or a court holds that the rate set is invalid or unenforceable.

Disqualified Bonds. Bonds held for the account of IRWD shall not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Bonds provided in the Indenture, and shall not be entitled to consent to or take any other action provided in the Indenture

(provided, however, that only Bonds that the Trustee knows to be so held shall be disregarded), and the Trustee may adopt appropriate regulations to require each Owner, before such Owner's consent provided for in the Indenture shall be deemed effective, to reveal if the Bonds as to which such consent is given are disqualified as provided in this paragraph.

Endorsement or Replacement of Bonds After Amendment or Supplement. After the effective date of any action taken as provided in the Indenture, the Trustee may determine that the Bonds may bear a notation by endorsement in form approved by the Trustee as to such action, and in that case upon demand of the Owner of any Outstanding Bond and presentation of such Owner's Bond such notation shall be made on such Bond. If the Trustee shall so determine, new Bonds so modified as in the opinion of the Trustee shall be necessary to conform to such action shall be prepared, and in that case upon demand of the Owner of any Outstanding Bonds, such new Bonds shall be exchanged without cost to each Owner for Bonds then Outstanding at the office of the Paying Agent upon surrender of such Outstanding Bonds. All Bonds surrendered to the Paying Agent pursuant to the provisions of this paragraph shall be cancelled by the Trustee and shall not be redelivered.

Defeasance

Defeasance. If and when the Bonds secured by the Indenture shall become due and payable in accordance with their terms or through redemption proceedings as provided in the Indenture, or otherwise, and the whole amount of the principal, Purchase Price or redemption price and the interest so due and payable upon all of the Bonds shall be paid, or provision shall have been made for the payment of the same in accordance with the Indenture, together with all other sums payable under the Indenture by IRWD, including all fees and expenses of the Trustee and all amounts owing to the Bank under the Reimbursement Agreement have been paid in full and the Letter of Credit has been returned to the Bank by the Trustee, then and in that case, the Indenture and the lien created by the Indenture shall be discharged and satisfied and IRWD shall be released from the covenants, agreements and obligations of IRWD contained in the Indenture, and the Trustee shall assign and transfer to or upon the order of IRWD all property (in excess of the amounts required for the foregoing) then held by the Trustee free and clear of any encumbrances and shall execute such documents as may be reasonably required by IRWD in this regard.

Subject to the provisions of the above paragraph, when any of the Bonds shall have been paid and if, at the time of such payment, IRWD shall have kept, performed and observed all the covenants and promises in such Bonds and in the Indenture required or contemplated to be kept, performed and observed by IRWD or on its part on or prior to that time, then the Indenture shall be considered to have been discharged in respect of such Bonds and such Bonds shall cease to be entitled to the lien of the Indenture and such lien and all covenants, agreements and other obligations of IRWD under the Indenture shall cease, terminate, become void and be completely discharged as to such Bonds.

Notwithstanding the satisfaction and discharge of the Indenture or the discharge of the Indenture in respect of any Bonds, those provisions of the Indenture relating to the maturity of the Bonds, interest payments and dates thereof, tender and exchange provisions, exchange and transfer of Bonds, replacement of mutilated, destroyed, lost or stolen Bonds, the safekeeping and cancellation of Bonds, nonpresentment of Bonds, compliance by IRWD of certain covenants contained in the Indenture and the duties of the Trustee in connection with all of the foregoing, shall remain in effect and shall be binding upon IRWD, the Trustee and the Owners and the Trustee shall continue to be obligated to hold in trust any monies or investments then held by the Trustee for the payment of the principal of, Purchase Price or redemption price and interest on the Bonds and to pay to the Owners the funds so held by the Trustee as and when such payment becomes due.

Bonds Deemed to Have Been Paid. Any Outstanding Bond or Bonds, other than Bank-Owned Bonds, shall, prior to the maturity, acceleration or Redemption Date thereof, be deemed to have been paid within the meaning and with the effect expressed in the provisions of the Indenture if (a) in case said Bonds are to be redeemed on any date prior to their maturity, IRWD shall have given to the Trustee in form satisfactory to the Trustee irrevocable instructions to mail, in accordance with the provisions of the Indenture notice of redemption of such Bonds on said Redemption Date, (b) there shall have been deposited with the Trustee either monies (which monies, if a Letter of Credit is then in effect, shall constitute Seasoned Funds), in an amount which shall be sufficient, or Government Obligations (which Government Obligations, if a Letter of Credit is then in effect, shall have been purchased with Seasoned Funds), the principal of and the interest on which when due, and without any reinvestment thereof, will provide monies which, together with the monies (which monies, if a Letter of Credit is then in effect, shall constitute Seasoned Funds), if any, deposited with or held by the Trustee at the same time, shall be sufficient (as verified by a report of an independent certified public accountant), to pay when due the principal, or redemption price, as applicable of, and interest due and to become due on, said Bonds on and prior to the Redemption Date or maturity date thereof, as the case may be, and the Purchase Price of any Bonds which may be tendered for purchase pursuant to the provisions of the Indenture calculated at the maximum Purchase Price to the first possible tender date or Redemption Date and (c) in the event any of said Bonds are not to be redeemed within the next succeeding 60 days, IRWD shall have given the Trustee in form satisfactory to the Trustee irrevocable instructions to mail, as soon as practicable in the same manner as a notice of redemption is mailed pursuant to the provisions of the Indenture, a notice to the Owners of such Bonds and to the Securities Depositories and an Information Service that the deposit required by (b) above has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with the provisions of the Indenture and stating such maturity or Redemption Dates upon which monies are to be available for the payment of the principal or redemption price, as applicable, of said Bonds. Neither the securities nor monies deposited with the Trustee nor principal or interest payments on any such securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal, Purchase Price or redemption price (if applicable) of, and interest on said Bonds; provided that any cash received from such principal or interest payments on such obligations deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, and at the direction of IRWD, be reinvested in Government Obligations maturing at times and in amounts, together with the other monies and payments with respect to Government Obligations then held by the Trustee, sufficient to pay when due the principal, Purchase Price or redemption price (if applicable) of, and interest to become due on said Bonds on and prior to such Redemption Date or maturity date thereof, as the case may be, and interest earned from such reinvestments shall, upon receipt by the Trustee of a written direction of an IRWD Representative, be paid over to IRWD, as received by the Trustee, free and clear of any trust, lien or pledge.

Unclaimed Money. Anything contained in the Indenture to the contrary notwithstanding, any money held by the Trustee or the Paying Agent in trust for the payment and discharge of the interest, principal or Purchase Price or redemption premiums, if any, of any Bonds which remains unclaimed for two years after the date when the payments on such Bonds have become payable, if such money was held by the Trustee or the Paying Agent on such date, or for two years after the date of deposit of such money if deposited with the Trustee or the Paying Agent after the date when such payments on the Bonds have become payable, shall upon written notice from IRWD be repaid by the Trustee or the Paying Agent, as applicable, to IRWD as its absolute property free from trust, and the Trustee or the Paying Agent, as applicable, shall thereupon be released and discharged with respect thereto and the Owners shall look only to IRWD for the payment of the interest, principal or Purchase Price or redemption premiums, if any, on such Bonds; provided that before being required to make any such payment to IRWD, the Trustee shall, at the expense of IRWD, give notice by mail to the Owners of such Bonds that such money remains unclaimed and that after a date named in such notice, which date shall not be less than 60 days after the date of giving such notice, the Trustee or the Paying Agent, as applicable, shall promptly pay to the Bank

so much of such money as the Bank certifies to the Trustee that IRWD owes to the Bank with respect to any Bond or under the Reimbursement Agreement, and the balance of such money then unclaimed will be returned to IRWD.

Miscellaneous

Benefits of the Indenture Limited. Nothing contained in the Indenture, expressed or implied, is intended to give to any person other than the Bank, IRWD, the Paying Agent, the Remarketing Agent, the Trustee and the Owners any claim, remedy or right under or pursuant to the Indenture, and any agreement, condition, covenant or term contained in the Indenture required to be observed or performed by or on behalf of IRWD shall be for the sole and exclusive benefit of the Bank, the Paying Agent, the Remarketing Agent and the Trustee and the Owners. The Trustee and IRWD acknowledge that so long as the Letter of Credit is in effect or any amount remains payable under the Reimbursement Agreement, the Bank shall be a third party beneficiary of the Indenture, with the power to enforce the same.

Successor Deemed Included in All References to Predecessor. Whenever either the Bank, IRWD, the Paying Agent, the Remarketing Agent, the Trustee or any officer thereof is named or referred to in the Indenture, such reference shall be deemed to include the successor to the powers, duties and functions that are presently vested in the Bank, IRWD, the Paying Agent, the Remarketing Agent or the Trustee or such officer, and all agreements, conditions, covenants and terms contained in the Indenture required to be observed or performed by or on behalf of the Bank, IRWD, the Paying Agent, the Remarketing Agent or the Trustee or any officer thereof shall bind and inure to the benefit of the respective successors thereof whether so expressed or not.

Execution of Documents by Owners. Any declaration, request or other instrument which is permitted or required in the Indenture to be executed by Owners may be in one or more instruments of similar tenor and may be executed by Owners in person or by their attorneys appointed in writing. The fact and date of the execution by any Owner or such Owner's attorney of any declaration, request or other instrument or of any writing appointing such attorney may be proved by the certificate of any notary public or other officer authorized to take acknowledgments of deeds to be recorded in the state or territory in which such notary public or other officer purports to act that the person signing such declaration, request or other instrument or writing acknowledged to such notary public or other officer the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer, or by such other proof as the Trustee may accept which it may deem sufficient.

Any declaration, request or other instrument in writing of the Owner of any Bond shall bind all future Owners of such Bond with respect to anything done or suffered to be done by IRWD or the Trustee in good faith and in accordance therewith.

Waiver of Personal Liability. No supervisor, officer or employee of IRWD shall be individually or personally liable for the payment of the interest or Purchase Price or principal or redemption premiums, if any, on the Bonds, but nothing contained in the Indenture shall relieve any supervisor, officer or employee of IRWD from the performance of any official duty provided by any applicable provision of law or the Indenture.

Notice by Mail. Any notice required to be given under the Indenture by mail to Owners shall be given by mailing a copy of such notice, first class postage prepaid, to such Owners at their addresses appearing in the Bond Register.

Partial Invalidity. If any one or more of the conditions, covenants or terms contained or required in the Indenture to be observed or performed by or on the part of IRWD, the Paying Agent, the

Remarketing Agent, the Bank or the Trustee shall be contrary to law, then such condition or conditions, such covenant or covenants, or such term or terms shall be null and void and shall be deemed separable from the remaining conditions, covenants and terms of the Indenture and shall in no way affect the validity of the Indenture or of the Bonds, and the Owners shall retain all the benefit, protection and security afforded to them under the Indenture and under all provisions of applicable law. The parties to the Indenture declare that they would have executed and delivered the Indenture and each and every other article, section, paragraph, subdivision, sentence, clause and phrase of the Indenture and would have authorized the issuance and delivery of the Bonds pursuant to the Indenture irrespective of the fact that any one or more of the articles, sections, paragraphs, subdivisions, sentences, clauses or phrases of or the application of the Indenture to any person or circumstance may be held to be unconstitutional, unenforceable or invalid.

Bank. Except as otherwise provided below, so long as the Bank has not wrongfully dishonored a properly presented and conforming drawing on the Letter of Credit, the Bank shall be deemed to be the owner of the Bonds for the purpose of all consents, approvals, waivers or the institution of any action and the direction of remedies. All provisions of the Indenture regarding consents, approvals, directions, appointments or requests by the Bank shall be deemed not to require or permit such consents, approvals, directions, appointments or requests by the Bank during any time in which no Letter of Credit is in effect and no amounts are owing to the Bank, or such Bank has wrongfully dishonored a properly presented and conforming drawing on the Letter of Credit, or after the Letter of Credit shall at any time for any reason cease to be valid and binding on the Bank, or while such Bank is denying further liability or obligation under the Letter of Credit (unless such Letter of Credit has been fully drawn or to the extent that the conditions to payment thereunder have not been fully satisfied) or after such Bank has rescinded, repudiated or terminated the Letter of Credit and no amounts are owing to the Bank; provided, however, that nothing contained in the provisions of the Indenture summarized under the caption “- Bank” shall limit the rights of the Bank as an Owner of Bank-Owned Bonds.

All provisions in the Indenture relating to the Bank shall be of no force and effect with respect to a particular Bank if the applicable Letter of Credit and Reimbursement Agreement are not in effect, there are no related Bank-Owned Bonds and all amounts owing to such Bank under the applicable Reimbursement Agreement have been paid.

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

New York Time. Unless otherwise expressly stated, all times referred to in the Indenture shall be New York City time.

Payment Due on Non-Business Days. If a payment date is not a Business Day, then payment may be made on the next Business Day, and no interest shall accrue for the intervening period.

APPENDIX D

BOOK-ENTRY ONLY SYSTEM

The Depository Trust Company, New York, New York (“DTC”), will act as securities depository for the Series 2008A Bonds. The Series 2008A Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee or such other name as may be requested by an authorized representative of DTC). One fully-registered Series 2008 Bond certificate will be issued for each maturity of the Series 2008 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

Purchases of the Series 2008A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2008A Bonds on DTC’s records. The ownership interest of each actual purchaser of each Series 2008 Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2008A 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 Series 2008A Bonds, except in the event that use of the book-entry system for the Series 2008A Bonds is discontinued.

To facilitate subsequent transfers, all Series 2008A Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Series 2008A Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2008A Bonds; DTC's records reflect only identity of the Direct Participants to whose accounts such Series 2008A 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 Series 2008A Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2008A Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Series 2008A Bond documents. For example, Beneficial Owners of Series 2008A Bonds may wish to ascertain that the nominee holding the Series 2008A Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2008A Bonds within a issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Series 2008A 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 issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Series 2008A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and other payments on the Series 2008A 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 IRWD or the Trustee on the 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 IRWD, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and other payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of IRWD or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Series 2008A Bonds purchased or tendered, through its Participant to the Tender Agent and the Remarketing Agent, and shall effect delivery of such Series 2008A Bonds by causing the Direct Participant to transfer the Participant's interest in the Series 2008A Bonds, on DTC's records, to the Tender Agent. The requirements for physical delivery of Series 2008A Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Series 2008A Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Series 2008A Bonds to the Tender Agent's DTC account.

DTC may discontinue providing its services as securities depository with respect to the Series 2008A Bonds at any time by giving reasonable notice to IRWD or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Series 2008A Bond certificates are required to be printed and delivered.

IRWD may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Series 2008A Bond certificates will be printed and delivered.

The information in this appendix concerning DTC and DTC's book-entry system has been obtained from sources that IRWD believes to be reliable, but IRWD takes no responsibility for the accuracy thereof.

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APPENDIX E

FORM OF CO-BOND COUNSEL OPINIONS

Upon issuance of the Series 2008A Bonds, Orrick, Herrington & Sutcliffe LLP and Bowie, Arneson, Wiles & Giannone, Co-Bond Counsel, propose to render their final approving opinions with respect thereto in substantially the following form:

[Date of Delivery]

Irvine Ranch Water District
15600 Sand Canyon Avenue
Irvine, California

Bonds of Irvine Ranch Water District,
Consolidated Refunding Series 2008A

 (Final Opinion)

Ladies and Gentlemen:

We have acted as Co-Bond Counsel to the Irvine Ranch Water District (the "District") in connection with the issuance by the District of \$60,215,000 principal amount of Bonds of Irvine Ranch Water District, Consolidated Refunding Series 2008A (the "Bonds"). The Bonds are issued pursuant to Sections 36060 *et seq.* and Sections 36447 *et seq.* of the California Water Code, Section 53541 of the California Government Code and an Indenture of Trust, dated as of April 1, 2008 (the "Indenture"), by and between the District and The Bank of New York Trust Company, N.A., as trustee (the "Trustee"). The Bonds represent the consolidated, several general obligations of Improvement District Nos. 105, 113, 135, 161, 182, 213, 235, 250 and 261 (the "Improvement Districts"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

In such connection, we have reviewed the Indenture, the Tax Certificate of the District, dated the date hereof, relating to the Bonds (the "Tax Certificate"), opinions of counsel to the District and the Trustee, certificates of the District, the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this opinion speaks only as of its date and is not intended to, and may not, be relied upon in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update

this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the District. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes.

We call attention to the fact that the rights and obligations under the Bonds, the Indenture and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against governmental entities such as the District in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the assets described in or subject to the lien of the Indenture or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such assets. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute valid and binding obligations of the District. The Bonds are obligations of the District payable from the sources specified in the Indenture and are not obligations of the State of California or any political subdivision thereof (other than the District and the Improvement Districts).

2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the District.

3. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that interest on the Bonds is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

