

NEW ISSUE-FULL BOOK-ENTRY

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

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to certain qualifications described herein, under existing law, the interest on the Series A Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax. In the further opinion of Bond Counsel, interest on the Bonds is exempt from California personal income taxes. See "TAX MATTERS."

\$14,845,000
FALLBROOK PUBLIC UTILITY DISTRICT
2021 Wastewater Revenue Refunding Bonds,
Series A

\$5,035,000
FALLBROOK PUBLIC UTILITY DISTRICT
2021 Wastewater Revenue Refunding Bonds,
Taxable Series B

Dated: Date of Delivery

Due: September 1, as shown on the inside cover

Purpose. The 2021 Wastewater Revenue Refunding Bonds, Series A (the "Series A Bonds") and 2021 Wastewater Revenue Refunding Bonds, Taxable Series B (the "Taxable Series B Bonds" and together with the Series A Bonds, the "Bonds") are being issued by the Fallbrook Public Utility District (the "District") to (i) refund on a current basis the outstanding principal balance of a loan from the California State Water Resources Control Board (as described herein), currently outstanding in the principal amount of \$24,668,471 (the "SRF Loan") and (ii) pay the costs of issuing the Bonds. See "PLAN OF REFUNDING."

Bond Terms. Interest on the Bonds will be payable on March 1 and September 1 of each year, commencing March 1, 2021. Payments of the principal of, premium, if any, and interest on the Bonds will be made directly to The Depository Trust Company ("DTC"), or its nominee, Cede & Co., by U.S. Bank National Association, as trustee (the "Trustee"), so long as DTC or Cede & Co. is the registered owner of the Bonds.

Registration. The Bonds are being issued as fully registered bonds, registered in the name of Cede & Co. as nominee of DTC, and will be available to ultimate purchasers in the denomination of \$5,000 or any integral multiple thereof, under the book-entry system maintained by DTC. Ultimate purchasers of Bonds will not receive physical certificates representing their interest in the Bonds. So long as the Bonds are registered in the name of Cede & Co., as nominee of DTC, references herein to the owners shall mean Cede & Co., and shall not mean the ultimate purchasers of the Bonds. Disbursements of payments to DTC's Participants is the responsibility of DTC and disbursements of such payments to the Beneficial Owners is the responsibility of DTC's Participants and Indirect Participants, as more fully described herein. See APPENDIX D – BOOK-ENTRY SYSTEM.

Redemption. The Bonds are subject to redemption prior to maturity as described herein. See "THE BONDS – Redemption."

Security for the Bonds; No Reserve Fund. The Bonds are special limited obligations of the District, secured by and payable from a first pledge of and lien on the Net Revenues (defined herein) of the Wastewater System (defined herein) and from amounts on deposit in certain funds and accounts established under the Indenture (defined herein). The Bonds are not a debt, liability or obligation of the State of California or any of its political subdivisions other than the District as described herein. The District is not funding a debt service reserve fund for the Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS."

Existing and Future Parity Obligations. The District has outstanding debt that is payable from the Net Revenues of the Wastewater System on a parity basis with the Bonds and may enter into additional parity obligations in the future, subject to the conditions set forth in the Indenture. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Parity Debt."

Bond Insurance. The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by Build America Mutual Assurance Company ("BAM").



This cover page contains information for quick reference only. It is not intended to be a summary of all factors relating to an investment in the Bonds. Investors must read the entire Official Statement before making any investment decision.

The Bonds are offered when, as and if issued subject to the approval, as to their validity, by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel to the District, and certain other conditions. Jones Hall is also serving as Disclosure Counsel to the District and for the Underwriter by its counsel, Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California. Certain legal matters will be passed upon for the District by Best Best & Krieger LLP, as general counsel to the District. It is expected that the Bonds will be available for delivery in book-entry form through the facilities of DTC on or about January 27, 2021.

STIFEL

Dated: January 12, 2021.

MATURITY SCHEDULE

\$14,845,000
FALLBROOK PUBLIC UTILITY DISTRICT
2021 Wastewater Revenue Refunding Bonds,
Series A

Maturity Date (September 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP (Base: 306427) †
2025	\$585,000	4.000%	0.330%	116.720%	AA3
2026	1,185,000	4.000	0.420	119.773	AB1
2027	1,230,000	4.000	0.540	122.385	AC9
2028	1,280,000	4.000	0.700	124.365	AD7
2029	1,335,000	4.000	0.850	126.053	AE5
2030	1,390,000	4.000	0.980	127.589	AF2
2031	1,445,000	4.000	1.080	129.156	AG0
2032	1,505,000	4.000	1.160	128.235c	AH8
2033	1,565,000	4.000	1.240	127.321c	AJ4
2034	1,630,000	4.000	1.290	126.753c	AK1
2035	1,695,000	4.000	1.330	126.302c	AL9

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

\$5,035,000
FALLBROOK PUBLIC UTILITY DISTRICT
2021 Wastewater Revenue Refunding Bonds,
Taxable Series B

Maturity Date (September 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP (Base: 306427) †
2021	\$1,110,000	0.297%	0.297%	100.000%	AM7
2022	1,115,000	0.397	0.397	100.000	AN5
2023	1,120,000	0.547	0.547	100.000	AP0
2024	1,130,000	0.727	0.727	100.000	AQ8
2025	560,000	1.012	1.012	100.000	AR6

† CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Ratings on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. CUSIP numbers have been assigned by an independent company not affiliated with the District and are included solely for the convenience of investors. Neither the District, the Underwriter nor the Municipal Advisor is responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the Bonds or as included herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

No Offering May Be Made Except by this Official Statement. No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations with respect to the Bonds other than as contained in this Official Statement, and if given or made, such other information or representation must not be relied upon as having been authorized. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

Effective Date. This Official Statement speaks only as of its date, and the information and expressions of opinion contained in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale of the Bonds will, under any circumstances, create any implication that there has been no change in the affairs of the District or the Wastewater System since the date of this Official Statement.

Use of this Official Statement. This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not a contract with the purchasers of the Bonds.

Preparation of this Official Statement. The information contained in this Official Statement has been obtained from sources that are believed to be reliable, but this information is not guaranteed as to accuracy or completeness. The Underwriter has provided the following sentence for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement, in accordance with, and as part of, its responsibility to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

Document References and Summaries. All references to and summaries of the Fiscal Agent Agreement or other documents contained in this Official Statement are subject to the provisions of those documents and do not purport to be complete statements of those documents.

Stabilization of and Changes to Offering Prices. The Underwriters may over allot or take other steps that stabilize or maintain the market price of the Bonds at a level above that which might otherwise prevail in the open market. If commenced, the Underwriter may discontinue such market stabilization at any time. The Underwriter may offer and sell the Bonds to certain dealers, dealer banks and banks acting as agent at prices lower than the public offering prices stated on the cover page of this Official Statement, and those public offering prices may be changed from time to time by the Underwriter.

Bonds are Exempt from Securities Laws Registration. The issuance and sale of the Bonds have not been registered under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, in reliance upon exemptions for the issuance and sale of municipal securities provided under Section 3(a)(2) of the Securities Act of 1933 and Section 3(a)(12) of the Securities Exchange Act of 1934.

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

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE DISTRICT DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN ITS EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED OCCUR.

Internet Site. The District maintains an internet site; however, none of the information contained on that internet site is incorporated by reference in this Official Statement.

Bond Insurer. Build America Mutual Assurance Company ("BAM") makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under the heading "BOND INSURANCE" and "APPENDIX G – Specimen Municipal Bond Insurance Policy".

FALLBROOK PUBLIC UTILITY DISTRICT
(SAN DIEGO COUNTY, CALIFORNIA)

BOARD OF DIRECTORS

Jennifer DeMeo, *President and Director of Subdistrict No. 2*
Dave Baxter, *Vice President and Director of Subdistrict No. 3*
Ken Endter, *Director of Subdistrict No. 1*
Don McDougal, *Director of Subdistrict No. 4*
Charley Wolk, *Director of Subdistrict No. 5*

DISTRICT STAFF

Jack Bebee, *General Manager*
David Shank, *Assistant General Manager & Chief Financial Officer*
Lauren Eckert, *Secretary of the Board of Directors*
Paula C. P. de Sousa, Best Best & Krieger LLP, *General Counsel*

SPECIAL SERVICES

Municipal Advisor

Steven Gortler
San Francisco, California

Bond Counsel and Disclosure Counsel

Jones Hall, A Professional Law Corporation
San Francisco, California

Trustee

U.S. Bank National Association
Los Angeles, California

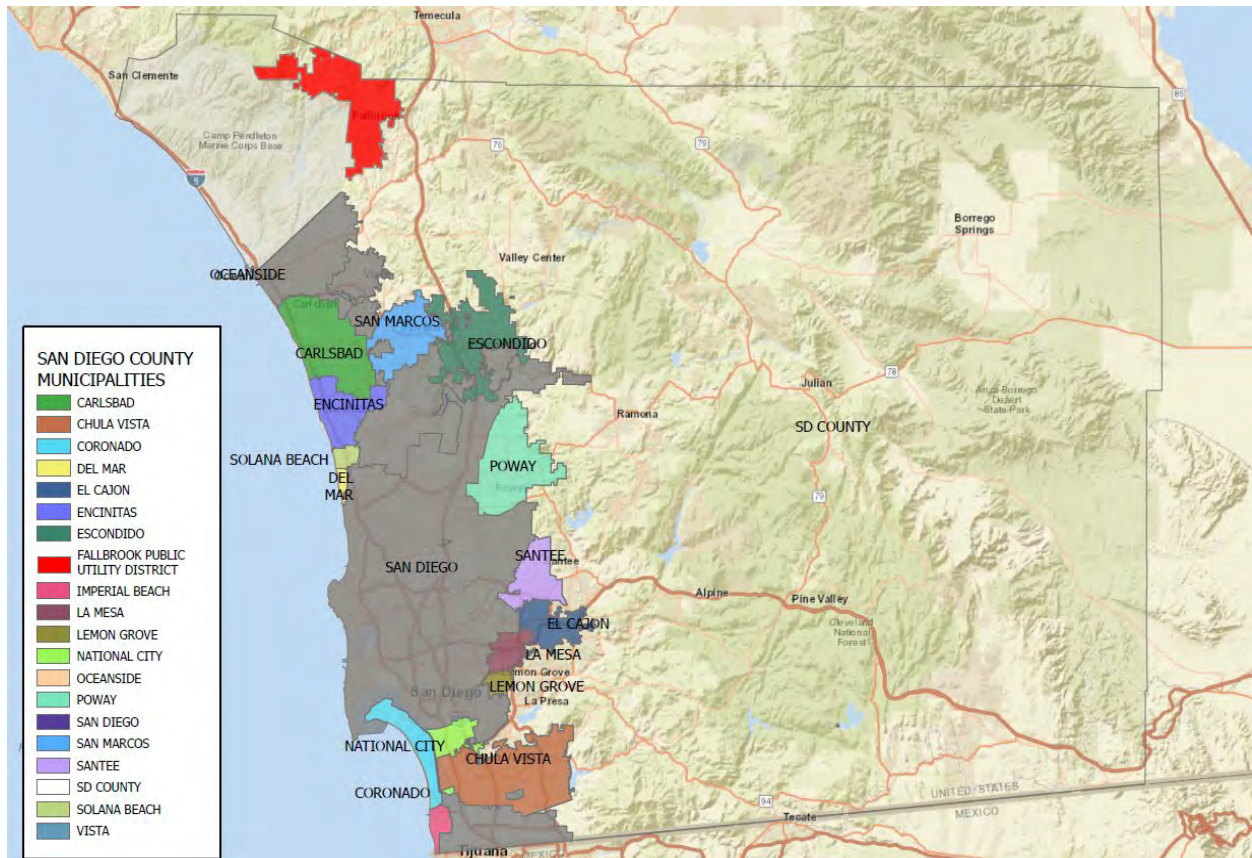
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FALLBROOK REGIONAL MAP



SAN DIEGO COUNTY MUNICIPALITIES MAP



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OFFICIAL STATEMENT

\$14,845,000
FALLBROOK PUBLIC UTILITY DISTRICT
2021 Wastewater Revenue Refunding Bonds,
Series A

\$5,035,000
FALLBROOK PUBLIC UTILITY DISTRICT
2021 Wastewater Revenue Refunding Bonds,
Taxable Series B

INTRODUCTION

General

This Official Statement, including the cover page and appendices hereto, sets forth certain information in connection with the sale by the Fallbrook Public Utility District (the “District”) of its 2021 Wastewater Revenue Refunding Bonds, Series A (the “Series A Bonds”) and its 2021 Wastewater Revenue Refunding Bonds, Taxable Series B (the “Taxable Series B Bonds”) and together with the Series A Bonds, the “Bonds”). This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents described herein.

All capitalized terms used and not otherwise defined herein shall have the meanings assigned to such terms in APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE” or, if not defined therein, shall have the meanings assigned to such terms in the Indenture.

Authority for Issuance and Application of Proceeds

The Bonds are being issued under the provisions of Articles 10 and 11 of Part 1 of Division 2 of Title 5 of the California Government Code (the “Bond Law”) and an Indenture of Trust, dated as of January 1, 2021 (the “Indenture”), between the District and U.S. Bank National Association, as trustee (the “Trustee”). The Bonds are being issued to (i) refund on a current basis the outstanding principal balance of a 2012 loan from the California State Water Resources Control Board (as described herein), currently outstanding in the principal amount of \$24,668,471 (the “SRF Loan”) and (ii) pay the costs of issuing the Bonds. See “PLAN OF REFUNDING.”

The District

The District provides the following services through three separate utility enterprises: (i) potable water service through its water system, (ii) wastewater service through its Wastewater System, and (iii) recycled water service through its recycled water system.

The District was originally formed on June 5, 1922 to provide potable water to customers in the unincorporated community of Fallbrook, which is located in San Diego County (the “County”) approximately 55 miles north of the City of San Diego and 7 miles northeast of the Marine Corps Base Camp Pendleton. Over time, annexations have expanded the District’s potable water service area from approximately 500 acres to 28,000 acres (44 square miles) at present.

In 1994, the District's scope of operations expanded to provide wastewater and recycled water to portions of Fallbrook when the Fallbrook Sanitary District merged with the District. The Wastewater System is currently comprised of 78 miles of buried sewer lines and force mains, a 2.7 million gallon per day ("MGD") water reclamation plant ("WRP"), a 1-megawatt ("MW") solar facility located at the WRP, and a 23-mile ocean outfall line. In 2015, the District completed a major overhaul, upgrade and expansion of the WRP. See "THE WASTEWATER SYSTEM."

For additional information regarding the District, the unincorporated area of Fallbrook and the County, see "THE DISTRICT" and "APPENDIX A – General Information about Fallbrook and San Diego County."

The Bonds

The Bonds will be dated their date of issuance and delivery, will bear interest at the rates per annum set forth on the inside cover page hereof payable semiannually on March 1 and September 1, commencing March 1, 2021 (each, an "Interest Payment Date"), and will mature on the dates and in the amounts set forth on the inside cover page hereof. The Bonds will be delivered as fully registered bonds, registered in the name of Cede & Co. as nominee of The Depository Trust Company ("DTC"), and will be available to ultimate purchasers ("Beneficial Owners") in the denomination of \$5,000 or any integral multiple thereof, under the book-entry system maintained by DTC. Beneficial Owners will not be entitled to receive delivery of bonds representing their ownership interest in the Bonds. See "THE BONDS."

The Bonds are subject to redemption prior to maturity as described herein. See "THE BONDS – Redemption."

Security for the Bonds and Parity Debt

The Bonds are secured by the Net Revenues of the Wastewater System, which under the Indenture are pledged for payment of the Bonds. The District has outstanding debt that is payable from the Net Revenues of the Wastewater System on a parity basis with the Bonds and the District may enter into additional parity obligations in the future, subject to the conditions set forth in the Indenture.

Revenues from the District's water system and recycled water system are not pledged toward repayment of the Bonds. However, a portion of the proceeds from the SRF Loan that is being refunded by the Bonds was used to finance certain improvements that are attributable to the recycled water system, and thus pursuant to Proposition 218, revenues of the recycled water system, net of amounts pledged for payment of other obligations, may be lawfully used by the District to pay a portion of the debt service on the Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS."

No Reserve Fund

The District will not fund a debt service reserve fund for the Bonds.

Bond Insurance

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by Build America Mutual Assurance Company ("BAM").

Special Obligations

The Bonds are special obligations of the District, secured by and payable from the Net Revenues of the Wastewater System, and from amounts on deposit in certain funds and accounts established under the Indenture. Revenues of the District's recycled water system may also be used to pay a portion of the Bonds, however such revenues are not pledged for payment of the Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS." The Bonds are not a debt, liability or obligation of the State or any of its political subdivisions other than the District, as described herein.

Risk Factors and COVID 19

Investment in the Bonds is not suitable for all investors. Investors are directed to the heading "RISK FACTORS" for a non-exclusive list of certain risks that may materially adversely impact the District and the Bonds. In particular, the District is monitoring the COVID-19 pandemic but is not yet able to fully predict the effect it will have on the financial performance or operations of the Wastewater System. To date, the Wastewater System has not experienced any material adverse impact from COVID-19, but this may change without notice in the future.

The District cannot predict to what extent the District may desire to, or be required to, provide Wastewater System customer assistance measures or deferrals, forbearances, adjustments or other changes to customers or its billing and collection procedures or whether the pandemic may have a material adverse effect on the finances and operations of Wastewater System. Prospective investors should consider that the restrictions and limitations instituted related to COVID-19 may increase (even after they are decreased), and the upheaval to the national and global economies may continue and/or be exacerbated, at least over the near term. The recovery from the effects of the COVID-19 pandemic may be prolonged, and therefore, COVID-19 may adversely impact Wastewater System revenues. See "RISK FACTORS – COVID-19 Pandemic."

Further Information

The summaries and references of the Indenture and other documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive, and each such summary and reference is qualified in its entirety by reference to the Indenture and each document, statute, report or instrument. See APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE" for a summary of certain terms of the Indenture not summarized in the main body of this Official Statement.

THE BONDS

General

The Bonds will be dated their date of issuance and delivery, will bear interest at the rates per annum set forth on the inside cover page hereof payable on each Interest Payment Date and will mature on the dates and in the amounts set forth on the inside cover page hereof. The Bonds will be issued in denominations of \$5,000 or any integral multiple thereof, so long as no Bond may have more than one maturity date. The Bonds will be issued only as one fully registered Bond for each maturity, in the name of Cede & Co., as nominee for DTC, as registered owner of all Bonds. See APPENDIX D – "BOOK ENTRY SYSTEM." Ownership may

be changed only upon the registration books maintained by the Trustee as provided in the Indenture.

Interest on the Bonds is payable from the Interest Payment Date next preceding the date of authentication thereof unless:

(a) a Bond is authenticated between an Interest Payment Date and the 15th calendar day of the month immediately preceding such Interest Payment Date (each, a "Record Date"), in which event it will bear interest from such Interest Payment Date,

(b) a Bond is authenticated on or before the first Record Date, in which event interest thereon will be payable from the date of original delivery of the Bonds, or

(c) interest on any Bond is in default as of the date of authentication thereof, in which event interest thereon will be payable from the date to which interest has been paid in full, payable on each Interest Payment Date.

Interest on the Bonds (including the final interest payment upon maturity or redemption) is payable when due by check or draft of the Trustee mailed to the Owner thereof at such Owner's address as it appears on the Registration Books at the close of business on the preceding Record Date; provided, that at the written request of the Owner of at least \$1,000,000 aggregate principal amount of Bonds, which written request is on file with the Trustee as of any Record Date, interest on such Bonds will be paid on the succeeding Interest Payment Date to such account in the United States as specified in such written request.

Redemption

Optional Redemption. The Taxable Series B Bonds are not subject to optional redemption prior to their respective stated maturity dates.

The Series A Bonds maturing on or after September 1, 2032, are subject to redemption in whole, or in part among maturities on such basis as the District may designate and by lot within a maturity, at the option of the District, on any date on or after September 1, 2031, from any available source of funds, at a redemption price of the principal amount of the Series A Bonds to be redeemed plus accrued interest to the date of redemption, without premium.

Extraordinary Redemption from Net Proceeds of Insurance or Condemnation. The Bonds shall be subject to extraordinary redemption prior to their respective stated maturities, as a whole or in part on any date, as determined by the District, from Net Proceeds, upon the terms and conditions of, and as provided for in the Indenture, at a Redemption Price equal to the principal amount of the Bonds to be redeemed, without premium, plus accrued interest thereon to the date fixed for redemption.

Notice of Redemption. Unless waived by any Owner of Bonds to be redeemed, notice of any redemption of Bonds will be given, at the expense of the District, by the Trustee, by mailing a copy of a redemption notice by first class mail at least 20 days and not more than 60 days prior to the date fixed for redemption to the Owner of the Bond or Bonds to be redeemed at the address shown on the Bond Registration Books; provided, that neither the failure to receive such notice nor any immaterial defect in any notice shall affect the sufficiency of the proceedings for the redemption of the Bonds.

All notices of redemption will be dated and will state: (i) the redemption date, (ii) the redemption price of the Bonds being redeemed (the "Redemption Price"), (iii) if fewer than all

Outstanding Bonds are to be redeemed, including (A) the CUSIP numbers of all Bonds being redeemed; (B) the stated interest rate with respect to each Bond being redeemed; (C) the maturity date of each Bond being redeemed; and (D) any other descriptive information needed to identify accurately the Bonds being redeemed, (iv) that on the redemption date the Redemption Price will become due and payable with respect to each such Bond or portion thereof called for redemption, and that interest with respect thereto shall cease to accrue from and after said date, and (v) the place or places where such Bonds are to be surrendered for payment of the Redemption Price, which places of payment may include the Office of the Trustee.

Rescission of Notice of Redemption. The District has the right to rescind any notice of the optional redemption of Bonds by written notice to the Trustee on or prior to the date fixed for redemption. Any notice of redemption will be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the Bonds then called for redemption, and such cancellation will not constitute an Event of Default under the Indenture. The District and the Trustee have no liability to the Bond Owners or any other party related to or arising from such rescission of notice of redemption. The Trustee will mail notice of such rescission of notice of redemption in the same manner as the original notice of redemption was sent.

Consequences of Notice. Notice of redemption having been given as required by the Indenture, the Bonds or portions of Bonds so to be redeemed will, on the redemption date, become due and payable at the Redemption Price, and from and after such date (unless the District defaults in the payment of the Redemption Price) such Bonds or portions of Bonds will cease to have interest accrue thereon. Upon surrender of Bonds for redemption in accordance with a redemption notice, the Bonds will be paid by the Trustee at the Redemption Price. Installments of interest due on or prior to the redemption date will be payable as provided in the Indenture. Upon surrender for any partial redemption of any Bond, there will be prepared for the Owner a new Bond or Bonds of the same maturity in the amount of the unredeemed principal. All Bonds which have been redeemed will be cancelled and destroyed by the Trustee and will not be redelivered.

Partial Redemption of Bonds. In the event only a portion of any Bond is called for redemption, then upon surrender of such Bond redeemed in part only, the District will execute and the Trustee will authenticate and deliver to the Owner, at the expense of the District, a new Bond or Bonds, of the same series and maturity, of authorized denominations in aggregate principal amount equal to the unredeemed portion of the Bond or Bonds.

Manner of Redemption. Whenever any Bonds are to be selected for redemption, the Trustee will determine, by lot, the numbers of the Bonds to be redeemed, and will notify the District of its determination.

PLAN OF REFUNDING

General

Bond proceeds will be used to (i) refund, in full, the 2012 SRF Loan, which is currently outstanding in the principal amount of \$24,668,471, and (ii) pay the costs of issuing the Bonds. The SRF Loan will be repaid on the closing date for the Bonds.

Estimated Sources and Uses of Funds

The following sets forth the estimated sources and uses of funds related to the Bonds.

Sources of Funds:	<u>Series A</u>	<u>Taxable Series B</u>	<u>Total</u>
Principal Amount of Bonds	\$14,845,000.00	\$5,035,000.00	\$19,880,000.00
Original Issue Premium	3,806,331.60	-0-	3,806,331.60
Funds on Hand related to SRF Loan	1,307,354.73	443,417.39	\$1,750,772.12
Total Sources of Funds	\$19,958,686.33	\$5,478,417.39	\$25,437,103.72
Uses of Funds:			
Prepayment of SRF Loan	\$19,716,219.38	\$5,399,983.67	\$25,116,203.05
Costs of Issuance ⁽¹⁾	242,466.95	78,433.72	320,900.67
Total Uses of Funds	\$19,958,686.33	\$5,478,417.39	\$25,437,103.72

(1) Includes fees and expenses of Bond Counsel, Disclosure Counsel, Rating Agency, Municipal Advisor, Trustee, Underwriter, bond insurance premium, printer and miscellaneous other fees and expenses.

Debt Service Schedule

The following table shows, for each Fiscal Year ending June 30, the principal of and interest that is payable on the Bonds, assuming no optional or extraordinary redemptions. See “– General,” above.

Fiscal Year	<u>Series A</u>	<u>Series A</u>	<u>Series A</u>	<u>Series B</u>	<u>Series B</u>	<u>Series B</u>	<u>Series</u>
<u>Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>A & B</u>
<u>June 30,</u>							<u>Total</u>
2021		\$56,081.11	\$56,081.11		\$2,619.13	\$2,619.13	\$58,700.24
2022		593,800.00	593,800.00	\$1,110,000	26,083.61	1,136,083.61	1,729,883.61
2023		593,800.00	593,800.00	1,115,000	22,221.98	1,137,221.98	1,731,021.98
2024		593,800.00	593,800.00	1,120,000	16,945.50	1,136,945.50	1,730,745.50
2025		593,800.00	593,800.00	1,130,000	9,774.75	1,139,774.75	1,733,574.75
2026	\$585,000	582,100.00	1,167,100.00	560,000	2,833.60	562,833.60	1,729,933.60
2027	1,185,000	546,700.00	1,731,700.00				1,731,700.00
2028	1,230,000	498,400.00	1,728,400.00				1,728,400.00
2029	1,280,000	448,200.00	1,728,200.00				1,728,200.00
2030	1,335,000	395,900.00	1,730,900.00				1,730,900.00
2031	1,390,000	341,400.00	1,731,400.00				1,731,400.00
2032	1,445,000	284,700.00	1,729,700.00				1,729,700.00
2033	1,505,000	225,700.00	1,730,700.00				1,730,700.00
2034	1,565,000	164,300.00	1,729,300.00				1,729,300.00
2035	1,630,000	100,400.00	1,730,400.00				1,730,400.00
2036	1,695,000	33,900.00	1,728,900.00				1,728,900.00
Total	\$14,845,000	\$6,052,981.11	\$20,897,981.11	\$5,035,000	\$80,478.57	\$5,115,478.57	\$26,013,459.68

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

Pledge of Net Revenues

The Bonds and any Parity Debt are secured by a first pledge and lien on Net Revenues. **“Net Revenues”** means, for any period, an amount equal to all of the Gross Revenues received during such period, minus the amount required to pay all Operation and Maintenance Costs becoming payable during such period. In addition, the Bonds are secured by a pledge of all of the moneys in the Debt Service Fund held by the Trustee under the Indenture, including all amounts derived from the investment of such moneys. So long as any of the Bonds are Outstanding, the Net Revenues and such moneys may not be used for any other purpose, except that out of the Net Revenues there may be apportioned such sums, for such purposes, as are expressly permitted by the Indenture.

“Gross Revenues” means: (1) all gross charges (including surcharges, if any) received for, and all other gross income and receipts derived by the District from, the ownership and operation of the Wastewater System or otherwise arising from the Wastewater System, including but not limited to (a) connection charges, (b) rebates or incentives paid to the District as a result of installed renewable energy generation projects or energy efficiency measures that benefit the operation of the Wastewater System, and (c) investment earnings on amounts held in the Wastewater Fund or in any other fund established with respect to the Wastewater System; and (2) Tax Revenues. Gross Revenues does not include (i) refundable deposits made to establish credit, and (ii) the proceeds of any special assessments or special taxes levied upon real property within any improvement district served by the District for the purpose of paying special assessment bonds or special tax obligations of the District relating to the Wastewater System.

“Tax Revenues” means the amount of property tax revenues (as defined in Section 95 of the Revenue and Taxation Code of the State of California) apportioned, allocated and paid by the County Tax Collector to the District with respect to Improvement District “S” pursuant to Chapter 6 (commencing with Section 95) of Part 0.5 of Division 1 of the Revenue and Taxation Code of the State of California, as amended from time to time.

“Improvement District “S” means the improvement district formed by the District pursuant to #4 of the Terms and Conditions set forth in the San Diego County LAFCO Certificate of Dissolution (the “Certificate of Dissolution”), recorded as Document #1994-0718682 on December 19, 1994, Official Records of the San Diego County Recorder’s Office, the boundaries of which are coterminous with the boundaries of the Fallbrook Sanitary District, which was dissolved and merged into the District by the Certificate of Dissolution.

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

“Operation and Maintenance Costs” means the reasonable and necessary costs and expenses paid by the District to maintain and operate the Wastewater System, including but not limited to (a) costs of treating wastewater, (b) costs of electricity and other forms of energy supplied to the Wastewater System, (c) the reasonable expenses of management and repair and other costs and expenses necessary to maintain and preserve the Wastewater System in good repair and working order, and (d) the reasonable administrative costs of the District attributable to the operation and maintenance of the Wastewater System. Operation and

Maintenance Costs does not include (i) Debt Service payable on obligations incurred by the District with respect to the Wastewater System, (ii) depreciation, replacement and obsolescence charges or reserves therefor, and (iii) amortization of intangibles or other bookkeeping entries of a similar nature.

Special Obligation

The Bonds and any Parity Debt are special obligations of the District, secured by and payable from Net Revenues. Pursuant to Proposition 218, revenues of the District's recycled water system may also be used to pay a portion of the Bonds, however such revenues are not pledged for payment of the Bonds. The Bonds are not a debt, liability or obligation of the State of California or any of its political subdivisions other than the District, as described herein.

No Reserve Fund

The District will not fund a debt service reserve fund for the Bonds.

Wastewater Fund; Flow of Funds under Indenture

General. Promptly upon receipt, the District will deposit all Gross Revenues of the Wastewater System into the Wastewater Fund, and will apply all such amounts solely as set forth in the Indenture and as set forth in any other agreement, indenture of trust, resolution or other instrument authorizing the issuance of Parity Debt (each a "Parity Debt Document"). In addition to transfers which are required to be made for the repayment of any Parity Debt, the District will withdraw amounts on deposit in the Wastewater Fund and apply such amounts at the times and for the purposes, and in the priority, as follows:

Operation and Maintenance Costs. The District will apply amounts on deposit in the Wastewater Fund to pay all Operation and Maintenance Costs when due.

Transfers to Debt Service Fund. On a parity basis with amounts required to be made for repayment of Parity Debt, on or before the 3rd Business Day preceding each Interest Payment Date, so long as any Bonds remain outstanding, the District will withdraw Net Revenues from the Wastewater Fund and remit to the Trustee for deposit into the Debt Service Fund (which the Trustee will establish and hold in trust pursuant to the Indenture) an amount which, together with other available amounts then on deposit in the Debt Service Fund, is at least equal to the aggregate amount of principal of and interest coming due and payable on the Bonds on such Interest Payment Date.

Replenishment of Reserve Funds. As required by any Parity Debt Document, the District shall withdraw from the Wastewater Fund and pay to the applicable payee an amount which is required by any Parity Debt Document for the replenishment of reserve funds or the payment of an insurer providing a reserve fund insurance policy.

Other Lawful Uses. So long as no Event of Default has occurred and is continuing, the District may at any time use and apply moneys in the Wastewater Fund for any one or more of the following purposes: (A) the payment of any subordinate obligations or any unsecured obligations; (B) the acquisition and construction of extensions and improvements to the Wastewater System; (C) the payment or retirement of any of the Bonds or any other obligations of the District relating to the Wastewater System; or (D) any other lawful purpose of the District.

Use of Debt Service Fund. The Trustee will apply amounts in the Debt Service Fund solely for the purpose of (i) paying interest on the Bonds when due and payable (including accrued interest on any Bonds purchased or redeemed under the Indenture), and (ii) paying the principal

of the Bonds at the maturity thereof. Upon the payment of all Bonds, the Trustee will transfer any moneys remaining in the Debt Service Fund to the District for deposit into the Wastewater Fund.

BAM Insurance. Notwithstanding the foregoing, in the Indenture the District covenants and agrees that certain reimbursement amounts which may become due under the Insurance Policy are payable from and secured by a lien on and pledge of the Net Revenues on parity with debt service due on the Bonds. To that end, in the event of a draw on the Insurance Policy to pay debt service on the Bonds, the District agrees to pay to BAM, solely from the Net Revenues, a sum equal to the total of all amounts paid by BAM under the Insurance Policy, interest on such payments from the date paid by BAM until payment thereof in full by the District, and such other amounts related thereto as may become due in accordance with the terms of the Indenture.

Rate Stabilization Fund

The District has previously established a "Rate Stabilization Fund," which it shall continue to hold and administer under the Indenture for the purpose of stabilizing the rates and charges imposed by the District with respect to the Wastewater System. See "FINANCIAL MATTERS OF THE DISTRICT- Financial Policies."

From time to time the District may deposit amounts in the Rate Stabilization Fund, from any source of legally available funds, including but not limited to Net Revenues which are released from the pledge and lien which secure the Bonds and any Parity Debt, as the District may determine. The District may, but is not required to, withdraw from any amounts on deposit in the Rate Stabilization Fund and deposit such amounts in the Wastewater Fund in any Fiscal Year for the purpose of paying Debt Service coming due and payable in such Fiscal Year. Amounts so transferred from the Rate Stabilization Fund to the Wastewater Fund shall constitute Gross Revenues for such Fiscal Year (except as otherwise provided in the Indenture), and shall be applied for the purposes of the Wastewater Fund. Amounts on deposit in the Rate Stabilization Fund will not be pledged to or otherwise secure the Bonds or any Parity Debt. The District has the right at any time to withdraw any or all amounts on deposit in the Rate Stabilization Fund and apply such amounts for any lawful purposes of the District relating to the Wastewater System.

Rate Covenants; Collection of Rates and Charges

The District covenants in the Indenture to fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Wastewater System during each Fiscal Year which are at least sufficient, after making allowances for contingencies and errors in the estimates, to yield Gross Revenues sufficient to pay the following amounts:

- (a) All Operation and Maintenance Costs estimated by the District to become due and payable in such Fiscal Year;
- (b) The principal of and interest on the Bonds and any Parity Debt as they become due and payable during such Fiscal Year, without preference or priority, except to the extent such principal and interest is payable from proceeds of Parity Debt deposited for such purpose; and
- (c) All payments required to meet any other obligations of the District which are charges, liens, encumbrances upon, or which are otherwise payable from, the Gross Revenues or the Net Revenues during such Fiscal Year.

In addition, the District is required to fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Wastewater System during each Fiscal Year which are sufficient to yield Net Revenues which are at least equal to 120% of the amount described in the preceding clause (b) for such Fiscal Year. For purposes of this covenant, the amount of Net Revenues for a Fiscal Year will be computed on the basis that (i) any transfers from the Rate Stabilization Fund into the Wastewater Fund in such Fiscal Year are included in the calculation of Net Revenues, and (ii) any transfers from the Wastewater Fund into the Rate Stabilization Fund in such Fiscal Year are deducted from the amount of Net Revenues to the extent such deposits are made from Gross Revenues received by the District during that Fiscal Year.

Insurance; Net Proceeds

The District will at all times maintain with responsible insurers all such insurance on the Wastewater System as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to the Wastewater System. All amounts collected from insurance against accident to or destruction of any portion of the Wastewater System constitute Gross Revenues and must be used to repair or rebuild such damaged or destroyed portion of the Wastewater System, and to the extent not so applied, will be applied on a *pro rata* basis to redeem the Bonds and any Parity Debt in accordance with the Indenture and the related Parity Debt Documents. The District will also maintain, with responsible insurers, worker's compensation insurance and insurance against public liability and property damage to the extent reasonably necessary to protect the District, the Trustee and the Owners of the Bonds and outstanding Parity Debt. Any insurance required by the Indenture may be maintained by the District in the form of self-insurance through a joint powers agreement or otherwise.

No Senior Obligations

The District may not issue or incur any bonds, notes or other obligations having any priority over the Bonds in the payment of principal or interest out of the Net Revenues.

Parity Debt

Existing Parity Debt. In order to finance the cost of a 1-MW solar facility located at the WRP, the District entered into an Installment Sale Agreement, dated as of November 1, 2010 (the "**2010 Agreement**"), with the California Alternative Energy and Advanced Transportation Financing Authority in the initial principal amount of \$7,227,000. The 2010 Agreement is secured by a pledge of the Net Revenues of the Wastewater System on a parity basis with the pledge of the Net Revenues securing the Bonds. The 2010 Agreement is additionally secured by a first lien and pledge of the net revenues of the District's recycled water system.

The 2010 Agreement is a Qualified Energy Conservation Bond (QECB) pursuant to the Internal Revenue Code, which qualifies for a Federal interest rate subsidy equal to 70% (e.g. the Tax Credit Rate) of annual interest expense, subject to sequestration.

The 2010 Agreement is currently outstanding in the principal amount of \$2,968,528 and matures on November 18, 2027. For additional details on the 2010 Agreement, see "FINANCIAL MATTERS OF THE DISTRICT – Parity Debt."

Future Parity Debt. The District may issue bonds, notes or other obligations ("**Parity Debt**") payable from Net Revenues on a parity with the Bonds provided that certain conditions are satisfied, including the following:

(a) No Event of Default (or no event with respect to which notice has been given and which, once all grace periods have passed, would constitute an Event of Default) has occurred and is continuing; and

(b) Net Revenues for the most recent completed Fiscal Year for which audited financial statements of the District are available or for any more recent consecutive 12-month period selected by the District, in either case verified by an Independent Accountant or a Financial Consultant, plus, at the option of the District, any Additional Revenues (as defined below), are at least equal to 125% of the maximum amount of Debt Service coming due and payable in the current or any future Fiscal Year with respect to (i) the Bonds and all Parity Debt then outstanding and (ii) the Parity Debt then proposed to be issued.

For purposes of calculating Net Revenues to demonstrate compliance with paragraph (b) above, Gross Revenues does not include connection fees and charges, transfers from the Rate Stabilization Fund (if any), or interest income received by the Wastewater Fund during the period for which the calculation of Net Revenues are made.

“Additional Revenues” is defined in the Indenture to mean, with respect to the issuance of any Parity Debt, any or all of the following amounts:

(i) An allowance for Net Revenues from any additions or improvements to or extensions of the Wastewater System to be made from the proceeds of such Parity Debt in an amount equal to the estimated additional average annual Net Revenues to be derived from such additions, improvements and extensions for the first 36-month period in which each addition, improvement or extension is respectively to be in operation, all as shown by the certificate or opinion of a Financial Consultant.

(ii) An allowance for Net Revenues arising from any increase in the charges made for service from the Wastewater System which has been duly approved by the Board of Directors of the District prior to the incurring of such Parity Debt, but which, during all or any part of the most recent completed Fiscal Year for which audited financial statements of the District are available, or for any more recent consecutive 12-month period selected by the District, was not in effect, in an amount equal to the total amount by which the Net Revenues would have been increased if such increase in charges had been in effect during the whole of such Fiscal Year or 12-month period, all as shown by the certificate or opinion of a Financial Consultant.

State Loans. The District may borrow money from the State and incur State Loans to finance additional improvements to the Wastewater System. “State Loans” means loans secured by a pledge of Net Revenues of the Wastewater System and incurred by the District to finance improvements to the Wastewater System. State Loans may be treated as Parity Debt, so long as the District complies with the requirements for issuing Parity Debt.

Subordinate Obligations

Nothing in the Indenture limits or affects the ability of the District to issue or incur obligations which are either unsecured or which are secured by an interest in the Net Revenues which is junior and subordinate to the pledge of and lien upon the Net Revenues established under the Indenture.

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Build America Mutual Assurance Company (previously defined as “**BAM**”) will issue its Municipal Bond Insurance Policy (the “**Insurance Policy**” or “**Policy**”). The Policy guarantees the scheduled payment of principal of and interest on the Bonds that are insured when due as set forth in the form of the Policy included as APPENDIX G to this Official Statement.

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

Build America Mutual Assurance Company

BAM is a New York domiciled mutual insurance corporation and is licensed to conduct financial guaranty insurance business in all fifty states of the United States and the District of Columbia. BAM provides credit enhancement products solely to issuers in the U.S. public finance markets. BAM will only insure obligations of states, political subdivisions, integral parts of states or political subdivisions or entities otherwise eligible for the exclusion of income under section 115 of the U.S. Internal Revenue Code of 1986, as amended. No member of BAM is liable for the obligations of BAM.

The address of the principal executive offices of BAM is: 200 Liberty Street, 27th Floor, New York, New York 10281, its telephone number is: 212-235-2500, and its website is located at: www.buildamerica.com.

BAM is licensed and subject to regulation as a financial guaranty insurance corporation under the laws of the State of New York and in particular Articles 41 and 69 of the New York Insurance Law.

BAM's financial strength is rated “AA/Stable” by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC (“**S&P**”). An explanation of the significance of the rating and current reports may be obtained from S&P at www.standardandpoors.com. The rating of BAM should be evaluated independently. The rating reflects the S&P's current assessment of the creditworthiness of BAM and its ability to pay claims on its policies of insurance. The above rating is not a recommendation to buy, sell or hold the Bonds, and such rating is subject to revision or withdrawal at any time by S&P, including withdrawal initiated at the request of BAM in its sole discretion. Any downward revision or withdrawal of the above rating may have an adverse effect on the market price of the Bonds. BAM only guarantees scheduled principal and scheduled interest payments payable by the issuer of the Bonds on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the Policy), and BAM does not guarantee the market price or liquidity of the Bonds, nor does it guarantee that the rating on the Bonds will not be revised or withdrawn.

Capitalization of BAM

BAM's total admitted assets, total liabilities, and total capital and surplus, as of September 30, 2020 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$505.3 million, \$158.1 million and \$347.2 million, respectively.

BAM is party to a first loss reinsurance treaty that provides first loss protection up to a maximum of 15% of the par amount outstanding for each policy issued by BAM, subject to certain limitations and restrictions.

BAM's most recent Statutory Annual Statement, which has been filed with the New York State Insurance Department and posted on BAM's website at www.buildamerica.com, is incorporated herein by reference and may be obtained, without charge, upon request to BAM at its address provided above (Attention: Finance Department). Future financial statements will similarly be made available when published.

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

BAM GreenStar Bonds

The Bonds have been designated BAM GreenStar Bonds because BAM has determined that the use of bond proceeds by the District as described in this Official Statement and in any additional information obtained by BAM aligns with one of the Green Bond Principals (GBPs) developed by the International Capital Markets Association (ICMA). The GBPs were developed by the ICMA with the goal of establishing universally accepted guidelines for the issuance of green bonds, and one of the key requirements addresses the use of proceeds. BAM has been identified by the ICMA as an observer organization that is active in the field of green and/or social or sustainability finance and is Climate Bond Initiative approved verifier. The Credit Profile prepared by BAM for the Bonds will identify which of the following GBP categories applies to the Bonds:

- renewable energy
- energy efficiency
- pollution prevention and control
- environmentally sustainable management of living natural resources and land use
- terrestrial and aquatic biodiversity
- clean transportation
- climate change adaptation
- sustainable water and wastewater management
- green buildings.

Each of the GBPs correlates to one of the following UN Sustainable Development Goals which will also be included in the Credit Profile for the Bonds:

- clean water and sanitation
- affordable and clean energy
- sustainable cities and communities
- industry innovation and infrastructure
- responsible consumption and production
- climate action
- life below water
- life on land

The BAM GreenStar designation is based upon information obtained by BAM, which information BAM believes to be reliable, at the time of the issuance of the Bonds. BAM does not charge a fee in connection with the designation, does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. The designation is provided on an “AS IS” basis. BAM makes no representation or warranty, express or implied, including, but not limited to, the accuracy, results, timeliness, completeness, merchantability or fitness for any particular purpose with respect to the designation. A complete description of BAM GreenStar, and its limitations and terms of use, are available on BAM’s website <https://buildamerica.com/greenstar> and <https://buildamerica.com/terms-of-use> and incorporated herein by reference. The BAM GreenStar designation is determined solely by BAM; it has not been reviewed or approved by the District or the Underwriter for the Bonds, and the District and Underwriter assume no responsibility for such designation.

Additional Information Available from BAM

Credit Insights Videos. For certain BAM-insured issues, BAM produces and posts a brief Credit Insights video that provides a discussion of the obligor and some of the key factors BAM’s analysts and credit committee considered when approving the credit for insurance. The Credit Insights videos are easily accessible on BAM’s website at <http://www.buildamerica.com/videos>. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

Credit Profiles. Prior to the pricing of bonds that BAM has been selected to insure, BAM may prepare a pre-sale Credit Profile for those bonds. These pre-sale Credit Profiles provide information about the sector designation (e.g. general obligation, sales tax); a preliminary summary of financial information and key ratios; and demographic and economic data relevant to the obligor, if available. Subsequent to closing, for any offering that includes bonds insured by BAM, any pre-sale Credit Profile will be updated and superseded by a final Credit Profile to include information about the gross par insured by CUSIP, maturity and coupon. BAM pre-sale and final Credit Profiles are easily accessible on BAM’s website at www.buildamerica.com/credit-profiles. BAM will produce a Credit Profile for all bonds insured by BAM, whether or not a pre-sale Credit Profile has been prepared for such bonds. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

Disclaimers. The Credit Profiles and the Credit Insights videos and the information contained therein are not recommendations to purchase, hold or sell securities or to make any investment decisions. Credit-related and other analyses and statements in the Credit Profiles and the Credit Insights videos are statements of opinion as of the date expressed, and BAM assumes no responsibility to update the content of such material. The Credit Profiles and Credit Insight videos are prepared by BAM; they have not been reviewed or approved by the issuer of or the underwriter for the Bonds, and the issuer and underwriter assume no responsibility for their content.

BAM receives compensation (an insurance premium) for the insurance that it is providing with respect to the Bonds. Neither BAM nor any affiliate of BAM has purchased, or committed to purchase, any of the Bonds, whether at the initial offering or otherwise.

THE DISTRICT

Overview of the District

General. The District is a public utility district organized and existing under the “Public Utility District Act,” being Section 15501 et seq. of the Public Utilities Code of the State of California. Operating through three separate utility enterprises, the District provides the following services within the Fallbrook area: (i) potable water service through its water system, (ii) wastewater service through its Wastewater System, and (iii) recycled water service through its recycled water system.

Fallbrook is a census-designated-place in unincorporated San Diego County. The County is the second-most populous county in the State and the fifth-most populous in the United States. The District is located in the north-east region of the County approximately 55 miles north of the City of San Diego and 7 miles northeast of Marine Corp. Base Camp Pendleton, making the District’s service area a bedroom community for Camp Pendleton’s active military and civilian-service workers.

Camp Pendleton. Marine Corps Base Camp Pendleton is the Corps’ largest West Coast expeditionary training facility encompassing more than 125,000 acres including more than 2,600 buildings and 500 miles of road. Camp Pendleton is one of the Department of Defense’s busiest installations and offers a broad spectrum of training facilities for many active and reserve Marine, Army and Navy units, as well as national, state and local agencies. Located seven miles from Fallbrook, Camp Pendleton has been the largest employer in northern San Diego County for the past 60 years.

More than 38,000 military family members occupy base housing complexes. With a daytime population of 70,000 military and civilian personnel, the Marines, Sailors and their families rely on the surrounding communities for retail goods and services not available on Base.

Fallbrook Area. Fallbrook is a census designated place (CDP) located in unincorporated northern San Diego County, with an estimated 2018 population of approximately 33,000. Fallbrook’s population has been relatively stable over the past several years. Additional demographic and economic information about Fallbrook and the County is located in APPENDIX A.

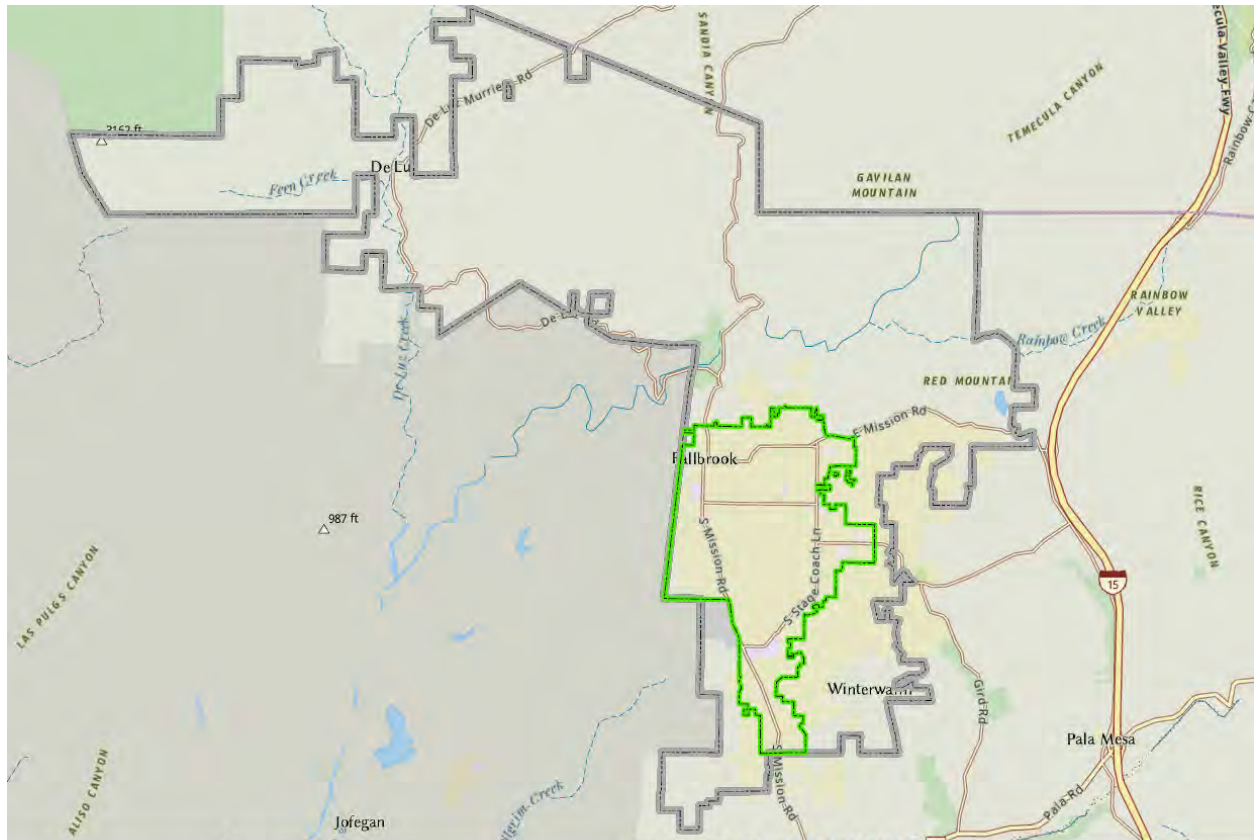
Water System. The District was initially formed on June 5, 1922 to provide potable water to customers in the unincorporated community of Fallbrook, which is located in the County. Annexations into the District since that time have expanded the District's potable water service area from approximately 500 acres to 28,000 acres (44 square miles). The District became a member of the San Diego County Water Authority at its formation on June 9, 1944, and thus was eligible to receive a portion of Colorado River water that would be diverted by the Metropolitan Water District (MWD) of Southern California. When Colorado River water became available in 1948, consumption within the District gradually increased to approximately 10,000 acre-feet per year by 1959. Then in 1978, MWD augmented its supply system with water from the California State Water Project and began delivering water from both systems. Today, the San Diego County Water Authority provides virtually all of the District's potable water.

Wastewater System and Recycled Water System. In 1994, the Fallbrook Public Utility District subsumed the Fallbrook Sanitary District, whereupon the District expanded the scope of its operations to provide wastewater and recycled water services to portions of Fallbrook. The Fallbrook Sanitary District had provided parts of Fallbrook with recycled water and wastewater services within a 4,200 acre area of downtown Fallbrook. The District took over those services in 1994, and the same year Fallbrook High School started receiving reclaimed water from the District, as its source of irrigation water. So did two new large nurseries. For additional details on the Wastewater System's facilities, customers and related matters, see "THE WASTEWATER SYSTEM."

Service Area Map

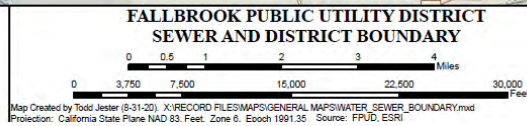
The map on the following page shows the service area of the District's Wastewater System.

FALLBROOK PUBLIC UTILITY DISTRICT SEWER AND DISTRICT BOUNDARY MAP



DISCLAIMER: By accepting this map, you agree that the Fallbrook Public Utility District assumes no liability or responsibility of any kind arising from use of this map. This map, its Data, and any calculations associated with this map is provided without warranty of any kind.

SEWER DISTRICT BOUNDARY
FPUD BOUNDARY



Board of Directors

The Board of Directors of the District consists of five directors, each of whom is elected to a four-year term representing one of five subdistricts within the District. The current Board Members, their respective sub-districts, and the expiration of each director's current term are as follows:

<u>Board Members</u>	<u>Subdistrict</u>	<u>Expiration of Term</u>
Jennifer DeMeo, <i>President</i>	No. 2	Dec. 2022
Dave Baxter, <i>Vice President</i>	No. 3	Dec. 2024
Ken Endter, <i>Director</i>	No. 1	Dec. 2024
Don McDougal, <i>Director</i>	No. 4	Dec. 2024
Charley Wolk, <i>Director</i>	No. 5	Dec. 2022

Jennifer DeMeo, President. Ms. DeMeo has been on the Board since 2016. She is a longtime Fallbrook resident, and works within the health and safety industry for GreatCall Inc, which provides devices geared toward seniors. She is also a youth volunteer at North Coast Church in Fallbrook. She holds a bachelor's degree in Religious Studies from Guilford College in North Carolina.

Dave Baxter, Vice President. Mr. Baxter has been on the Board since 2019. He is the senior director at Relevant Solutions, a company providing business solutions through instrumentation and automation, rotating and thermal equipment, purification and building solutions. He has extensive background in water and wastewater treatment, working with municipalities, and spent eight years in the Coast Guard. He is a Fallbrook business owner, owning and operating Fallbrook Protea farm, and rental property throughout town. Mr. Baxter has two bachelor's degrees from University of Tennessee – in environmental engineering and chemical engineering.

Ken Endter, Director. Mr. Endter has been on the Board since 2018. He is retired from RADY Children's Hospital where he worked as a diagnostic medical professional in the imaging department. He moved to Fallbrook in 2003 when RADY offered him the position. Prior to that, he worked for Kaiser Permanente and as a sub-contractor for the Department of Defense. He grew up in both Long Beach, California and on his family farm in Monticello, Utah which he managed and operated for many years. He has a bachelor's degree from Seattle University in Diagnostic Ultrasound with a minor in Physics.

Don McDougal, Director. Mr. McDougal has been on the Board since 2004. He is the President/CEO of the Grand Tradition Estate and Gardens, his family's business. A graduate of Fallbrook High, he has more than 40 years in the private business sector. After being away from Fallbrook for 28 years, he moved back to take over operation of the Grand Tradition in 1996. Mr. McDougal has a bachelor's degree from California Polytechnic University in Agricultural Business Management.

Charley Wolk, Director. Mr. Wolk has been on the Board since 2014. Prior to that, he also served a 4-year term on the Board from 1990 to 1994. A resident of Fallbrook since 1972, he owns and operates the Bejoca Company, a local grove management services company. Mr. Wolk has a bachelor's degree in Mechanical Engineering from Marquette University and a master's degree in Management Engineering from George Washington University.

District Management

Jack Bebee, General Manager. Mr. Bebee has more than 18 years in the management of engineering, operations, design and planning of water and wastewater infrastructure – including water treatment, distribution and wastewater collection and reclamation facilities. He began working for the District in 2009, and prior to that worked as a consultant, managing water and wastewater infrastructure projects. He has a Bachelor of Science degree in engineering from Washington and Lee University, a Master of Science in civil engineering from University of Illinois, and a Master of Business Administration from Cal. State University San Marcos, and holds a Professional Civil Engineering License in California.

David Shank, Assistant General Manager & Chief Financial Officer. Mr. Shank has more than 15 years in financial management. He began working for the District in 2017, and prior to that worked for the San Diego County Water Authority, as a consultant and an economist for the USDA. He has a Bachelor of Arts degree in economics from Emory University, and Master's degrees in Resource & Agricultural Economics (UC Davis), Environmental Engineering (University of Illinois), and Public Administration (San Diego State University).

Employees and Labor Arrangement

The District's budget for Fiscal Year 2020-21 includes 66.8 full-time equivalent ("FTE") positions, of which 15.2 FTEs are dedicated to wastewater services; additional FTEs provide administrative support to the Wastewater System as well. The current Memorandum of Understanding ("MOU") between the District and its employee association is set to expire in July 2022. The District has not experienced any work stoppages or delays by its employees within the past five years.

THE WASTEWATER SYSTEM

Overview

The District provides wastewater services to approximately 5,000 metered accounts within a service area that encompasses approximately 4,200 acres. By contrast, the District provides potable water service within a much larger service area that encompasses approximately 28,000 acres. The Wastewater System is supported primarily by monthly wastewater service charges as well as property taxes that are levied and collected in Improvement District "S".

Number of Wastewater Connections

The following table shows the number of residential and non-residential connections for the Wastewater System for the years shown.

Table 1
Fallbrook Public Utility District
Number and Type of Wastewater Connections

As of June 30,	Residential	Non- Residential	Total
2018	4,641	408	5,049
2019	4,621	383	5,004
2020	4,630	381	5,011

Source: Fallbrook Public Utility District.

Top Ten Customers

The ten largest customers of the Wastewater System accounted for approximately 6% of the total charges billed for the Wastewater System for Fiscal Year 2019-20. The following table shows the ten largest customers of the Wastewater System as of June 30, 2020 based on charges billed.

Table 2
Fallbrook Public Utility District
Ten Largest Wastewater Customers as of June 30, 2020

No.	Customer	Type of Customer	Revenues	Percent of Total Revs.⁽¹⁾
1.	VALLEY VIEW MOBILE LODGE	Residential	\$80,595	1.14%
2.	FALLBROOK HILLS APARTMENTS	Residential	46,267	0.65
3.	CPI GV CRESTVIEW ESTATES OW LLC	Residential	44,706	0.63
4.	SUMMER RIDGE APARTMENTS	Residential	42,945	0.61
5.	TURNAGAIN ARMS APARTMENTS	Residential	41,548	0.59
6.	SUNSET MEADOWS APARTMENTS	Residential	41,512	0.59
7.	REED & BROOKE APARTMENTS	Residential	40,100	0.57
8.	CORTEZ APARTMENTS	Residential	38,459	0.54
9.	FALLBROOK UNION HIGH SCHOOL DISTRICT	High School	36,287	0.51
10.	SUNSET VIEWS APARTMENTS	Residential	36,107	0.51
Total, Top 10			\$448,524	6.32%

(1) Based on total Service Charges and CIC Charges for Fiscal Year 2019-20 of \$7,093,228.

Source: Fallbrook Public Utility District.

Wastewater System Facilities

General. The Wastewater System is comprised of 78 miles of underground sewer lines and force mains, the WRP, a 1-MW solar facility located at the WRP, 6 lift stations, and a 23-mile ocean outfall line. The lift stations were installed from the 1960's to the 1990's and are in the process of being improved and rehabilitated by the District. The District maintains standby generators at each lift station, to provide replacement power in the event of a power interruption.

Water Reclamation Plant (WRP). The WRP has a design-capacity of 2.7 MGD. Based on current and expected future growth rates in the Wastewater System's service area, it is unlikely that the WRP will reach design capacity within the next 20-30 years. There are currently no large developments planned that would cause an immediate increase in capacity needs. In addition, much of the sewer service area consists of lower-density developments on septic systems.

In 2015, the District completed a \$27 million expansion and upgrade to the WRP to improve operational reliability and to provide storage for recycled water. The project was completed ahead of schedule and under budget. Before that, in 2008, in an effort to reduce costs by reducing sewage sludge hauling and disposal costs, the District implemented a sewage sludge recycling program. A state-of-the-art thermal dryer heats the sludge to extremely high temperatures, killing all harmful pathogens. The end product is a sterile fertilizer that can be safely returned to the soil and is classified as a Class A soil amendment. Instead of paying to haul sewage sludge to a landfill, the fertilizer is sold to commercial growers.

Treatment Process. Currently the WRP treats all influent flows to tertiary standards. Wastewater treatment processes at the WRP include preliminary treatment by mechanical bar screening, aerated grit removal, primary sedimentation, aeration and secondary clarification (activated sludge treatment process), and chlorination. Sludge from secondary treatment facilities is thickened, aerobically digested, and dewatered via centrifuge. Dewatered sludge is fed to a thermal dryer system to produce Class A soil amendment, as described above. If the dryer system is off-line, sewage sludge is dewatered via drying beds and hauled to a land application site in Yuma, Arizona by a contractor. Grit and screenings collected from preliminary treatment processes are collected and disposed of at a landfill in the County.

WRP inflows averaged approximately 2,000 acre-feet ("AF") per year from 2014 to 2019. The availability of recycled water varies slightly throughout the year due to minor infiltration during the wet season, but is on average between 155-175 AF per month. The amount of recycled water used by customers varies significantly from summer to winter due to irrigation needs, but the peak months occur in August and September when recycled demands account for roughly 50% of influent flows. Recycled water revenues are not pledged toward repayment of the Bonds, however revenues of the recycled water system may be lawfully used by the District to pay a portion of the debt service on the Bonds; see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS." Treated wastewater that is not used in the recycled water system flows to the Pacific Ocean via the District's outfall pipe. Recently, the District provided the City of Oceanside with a permanent right to discharge flows generated by Oceanside through the outfall pipe. In exchange for granting Oceanside this permanent right, the City of Oceanside agreed to assume responsibility for the maintenance of the outfall pipe from the City limits to the Pacific Ocean, which is anticipated to result in cost savings to the District over time.

Historical Wastewater Flows

The following table sets forth the historical average daily wastewater flow to the WRP for the fiscal years shown.

Table 3
Fallbrook Public Utility District
Historical Average Daily Flow at WRP

<u>As of</u> <u>June 30,</u>	<u>Average Daily</u> <u>Flow (MGD)</u>
2010	1.73
2011	1.74
2012	1.67
2013	1.53
2014	1.48
2015	1.54
2016	1.37

2017	1.39
2018	1.33
2019	1.52
2020	1.48

Source: Fallbrook Public Utility District.

Regulatory Matters

The U.S. Environmental Protection Agency (“EPA”), California State Water Resources Control Board (“State Water Board”), and the California Regional Water Quality Control Board, San Diego Region (“San Diego RWQCB”) regulate the Wastewater System. The District is currently in compliance with all Federal and State regulatory requirements.

The District operates under a Waste Discharge Requirements (“WDR”) Order No. 2016-0068-DDW, with an effective date of September 23, 2015 and an expiration date of August 5, 2026. It also recently received a new NPDES Permit, Order No. R9-2019-0169, with an effective date of April 1, 2020 and an expiration date of March 31, 2025. The WRP and other operations of the Wastewater System are performed in accordance with these regulatory permits and other applicable law.

Capital Improvement Program

The table below presents the District’s anticipated capital improvement projects with respect to the Wastewater System for the fiscal years shown. The District cannot provide any assurance that any specific improvements will be completed or completed on the anticipated schedule, or that the expenditures shown below will made. The District does not expect to incur any additional bonded indebtedness to finance these capital improvements and expects to pay for such improvements from available revenues of the Wastewater System.

Table 4
Fallbrook Public Utility District
5-Year Capital Improvement Program
Fiscal Years Ending June 30, 2021 – 2025

<i>Fiscal Year Ending June 30,</i>	2021	2022	2023	2024	2025	Total
WRP Improvements	\$245,000	\$257,575	\$208,121	\$998,460	\$796,140	\$2,505,296
Collection System Improvements	1,740,000	1,372,361	1,071,822	1,080,438	1,050,905	6,315,526
Outfall Improvements	50,000	82,424	52,030	52,551	53,076	290,081
Sub-Total	\$2,035,000	\$1,712,360	\$1,331,973	\$2,131,449	\$1,900,121	\$9,110,903

Source: Fallbrook Public Utility District.

FINANCIAL MATTERS OF THE DISTRICT

Basis of Accounting; Budgets

The District’s accounting system and practices are based upon Generally Accepted Accounting Principles (“GAAP”) and are kept on an accrual basis. Under the accrual basis, revenues are recognized when earned and expenditures are recognized when a liability is incurred. The District’s budget is prepared on a cash basis, which means that projected revenues are recognized when cash is assumed to be received and projected expenses are recognized when cash is disbursed.

The District operates as an enterprise fund, which has a set of self-balancing accounts that record the financial position of each of the District's services. The service funds track revenues from service fees and operating expenses specific to each service. This, in turn, makes each service fund independent and self-sufficient, and also ensures service fees are set to recover only costs associated with the particular service.

Each year, the District develops and adopts a new budget for the upcoming fiscal year. The budgeting process begins in January and starts with the budget message. The budget message establishes the priorities of the District in the next fiscal year and provides budget managers guidance on how to prioritize their budget needs. Along with the budget message, each manager/supervisor is provided a spreadsheet that has the current and projected operating expenditures for the current fiscal year and a placeholder for the proposed operating budget.

Financial Policies

Fund Balance Policies. The Fund Balance Policies, which are set forth in Article 15 of the District's Administrative Code, set target balances for reserves and working capital funds for the District. With respect to the Wastewater System, three funds are established and monitored: the Working Capital/Operating Fund, the Rate Stabilization Fund, and the Wastewater Services Capital Fund. For Fiscal Year 2020-21 the District expects to fall short of its funding targets.

- The **Working Capital/Operating Fund** for the Wastewater System is established and maintained at a level of 3 months operating and maintenance expenses. The primary source of funds for the Operating Fund are wastewater service charges and investment earnings. The Working Capital/Operating Fund target for Fiscal Year 2020-21 is \$1.4 million.
- The **Rate Stabilization Fund** for the Wastewater System is established to promote smooth and predictable rates and charges for the Wastewater System. Transfers from the Operating Fund are the source of funds for the Rate Stabilization Fund, and the target level is equal to 10% of annual revenues. The Rate Stabilization Fund target for Fiscal Year 2020-21 is \$0.8 million.
- The **Wastewater Services Capital Fund** is established to address capital needs of the Wastewater System. The primary source of funds are Wastewater Capital Improvement charges, connection fees, property tax receipts, and meter fees. The target fund balance is set to the equivalent of 3-year average expenditures on recurring capital projects (i.e. pipeline renewal/replacement). The Wastewater Services Capital Fund target for Fiscal Year 2020-21 the is \$5.2 million.

Investment Policy. The Investment Policy, which is set forth in Article 27 of the District's Administrative Code, establishes permitted investments for the District in compliance with State law. The Board delegates its authority to manage the investments of the District to the Treasurer, under the supervision of the General Manager. The objectives of the investment policy are, in order of importance: (i) to safeguard principal, (ii) meet the District's liquidity needs, (iii) achieve a return on investment within the parameters of prudent risk management.

Debt Management Policy. The Debt Management Policy, adopted by the Board in May 2017, complies with California Government Code section 8855(i). The policy sets forth the

District's goals for the approval and issuance of bonds, notes and other debt instruments and sets forth guidelines for the use of debt to finance and refinance capital projects.

Capitalization Policy. The Capitalization Policy establishes the parameters for costs to be defined an operating or capital expenditure of the District.

Long-Range Planning and New Mission Statement

The District engages in various long-range planning activities. Two examples are a 10-year financial plan adopted in 2017 and a new Mission Statement adopted in 2018.

In 2017, the District completed a comprehensive 10-year financial plan. As part of the financial plan, a Capital Improvement Plan was developed for water, recycled water and wastewater services. In addition, the District also restructured its rates and charges to better align with the cost of service. Other planning activities include establishing and funding a 115 Trust to offset the District's pension and OPEB liabilities. See "– Pension and OPEB Plans," herein.

In 2018, the District adopted a new Mission Statement to better align the District's activities with stakeholder interests. To better serve the community, the District identified the following long-range strategic goals: (1) to diversify its water supply by reducing its reliance on imported water from SDCWA, (2) to maintain the operational integrity of its aging infrastructure, (3) to improve operational efficiency, (4) to enhance customer service, and (5) to improve workforce training and development.

Wastewater Rates and Charges

2017 Rate Study and Board Implementation. In September 2017, Raftelis Financial Consultants, Inc. completed a Water, Recycled Water and Wastewater Rate Study for the District (the "2017 Rate Study"). With respect to the Wastewater System, the 2017 Rate Study: (1) recommended maximum rate increases of 4.5% annually, effective January 1, 2018 through January 1, 2026, inclusive, subject to Board action, and (2) recommended reserve targets for various funds associated with the Wastewater System. See "–Financial Policies," above and Table 5 below. The 2017 Rate Study also proposed a revised methodology for billing the Wastewater System's fixed-rate charge component – moving from a range of fixed-rate charges based on a customer's water meter size to a fixed-rate charge per equivalent dwelling unit ("EDU") calculated for each customer type. The new EDU-based rate structure is shown on the following page, and became effective on January 1, 2018.

On December 11, 2017, the Board adopted Resolution No. 4920, implementing the recommended maximum rate increases proposed in the 2017 Rate Study for the Wastewater System of 4.5% per year from January 1, 2018 through January 1, 2022, subject to future Board review and action each year. Subsequently, on December 13, 2018, December 9, 2019 and December 7, 2020, the Board confirmed the increases of 4.5% effective as of January 1, 2019, January 1, 2020 and January 1, 2021, respectively.

Components of Wastewater Rates. The District's wastewater rate structure is comprised of (1) a fixed service charge based on EDUs ("Fixed Wastewater Charges"), (2) a volumetric or flow-based service charge ("Volumetric Wastewater Charges") and (3) a fixed capital improvement charge ("Wastewater Capital Improvement Charges (CIC)").

Fixed Wastewater Charges. Monthly wastewater charges are based in part, on the number of equivalent dwelling units (“EDUs”) assigned to a property. Single family residential customers are assigned one EDU. All other customers are assigned a fraction of one EDU or one or more EDUs depending on their expected flow relative to a single family residential customer. An EDU is used to estimate the amount of wastewater returned to the sewer (i.e., “flow”) by a single family residential customer and certain assumptions regarding the concentration (“strength”) of the wastewater discharged by a single family residential customer.

Volumetric Wastewater Charges. Monthly wastewater charges are based, in part, on metered indoor water usage. To estimate indoor water usage that is returned to the sewer, a ‘return to sewer’ factor is applied to each user class. For residential users, the return to sewer factor is applied to their 3-month average winter water usage. The winter months, which are typically wet, allow indoor use to be estimated since outdoor/landscape use is at a minimum. However, even average winter water usage is adjusted to reflect some level of residential outdoor/landscape, which is not returned to the sewer. This methodology limits the impact that weather has on billable sewer flows.

Wastewater Capital Improvement Charges (CIC). These charges are levied on a per EDU basis each month to finance capital improvements to the Wastewater System. The CIC was first implemented in 2013. As part of the 2017 Rate Study, the District undertook a Proposition 218 rate increase process to increase the Wastewater CIC to \$11.16 per month per EDU effective January 1, 2018. Each July 1 thereafter, through and including July 1, 2022, the District is authorized to increase the Wastewater CIC in accordance with the Engineering News Record Construction Cost Index of February for Los Angeles of the preceding year (“ENR CCI”), not to exceed 10% annually.

Current and Projected Wastewater Rates – Fixed and Variable Charges. The current and projected sewer services charges of the District are set forth in the following table. The calculation of EDUs is set forth in the table on the following page.

Table 5
Fallbrook Public Utility District
Monthly Sewer Service Charges

	Effective Jan. 1, 2018	Effective Jan. 1, 2019	Effective Jan. 1, 2020	Effective Jan. 1, 2021	Projected Jan. 1, 2022
Monthly Fixed Charge Per EDU⁽¹⁾					
Wastewater Charge	\$9.28	\$9.70	\$10.14	\$10.60	\$11.08
Capital Improvement Charge (CIC) ⁽²⁾	\$11.16	\$11.53	\$11.62	\$11.63	TBD
Monthly Variable Charge Per 1,000 Gallons⁽³⁾					
Single-Family, Multi-Family & Ag. Domestic	\$9.44	\$9.87	\$10.32	\$10.79	\$11.28
Gov’t, Schools, Churches & Low-Strength Comm’l.	\$9.37	\$9.80	\$10.25	\$10.72	\$11.21
Medium-Strength Comm’l.	\$11.57	\$12.10	\$12.65	\$13.22	\$13.82
High-Strength Comm’l.	\$14.44	\$15.09	\$15.77	\$16.48	\$17.23

Note: Projected sewer service charge equal to maximum set forth in the 2017 Rate Study; the Board may implement rates less than maximum in future.

(1) See schedule of Equivalent Dwelling Units (EDUs) that follows. Methodology based on EDUs became effective January 1, 2018.

(2) Each July 1, through and including July 1, 2022, the District is authorized to increase the Wastewater CIC in accordance with the Engineering News Record Construction Cost Index of February for Los Angeles of the preceding year (“ENR CCI”), not to exceed 10% annually.

(3) Residential variable charge based on 2-year adjusted average winter water usage. Commercial variable charge is based on adjusted monthly water usage.

Source: Fallbrook Public Utility District.

		Equivalent Dwelling Units (EDUs)
Class 1	Single-Family Residence	
	Single-Family Residence	1.00
	Mobile home on individual parcel	1.00
Class 2	Apartment/Condo/Attached Cottage-Mobile Home	
	Per detached cottage w/bathroom and kitchen on a parcel w/ a single-family residence	0.80
	Per mobile home on a parcel with a single-family residence	0.80
	Per apartment unit	0.80
	Per condominium/duplex unit	0.80
	Accessory dwelling unit	0.40
Class 3/4	Mobile Home Park (per space)	0.80
	Hotel/Motel (per unit with kitchen)	0.80
	Hotel/Motel (per unit without kitchen)	0.50
Class 5	A Separate Business, Retail Shop With Office, Or Packing House Equipped With Restroom Facilities, Or Not So Equipped But Located In A Building Or Complex With Common Restroom	
	First 3,500 square feet (exterior building area) facilities	1.33
	Per additional 1000 square feet (exterior building area)	0.38
Class 6	Automotive Service Station	
	4 pumps or less	2.00
	More than 4 pumps	3.00
	Per recreational vehicle holding tank disposal station	1.00
Class 7	Church, Fraternal Lodge or Similar Auditorium (per 200 seating capacity)	1.00
Class 8	Bakery (per 3,500 square feet (exterior building area)	1.00
Class 9	Theater (per 150 seats)	1.33
Class 10	Hospital (per bed)	0.65
Class 11	Convalescent or Boarding Home (per bed)	0.30
Class 12	Labor Camp (per bed)	0.10
Class 13/14/16/17	Elementary School & Daycare (per 60 students)	1.00
	Junior High School (per 40 students)	1.00
	High School (per 30 students)	1.00
	Mortuary	1.00
Class 21/23	Car Wash & Self-Service Laundry	5.00
Class 24/32	Restaurants & Grocery Stores	
	Under 2,500 square feet	3.00
	2,501-7,000 square feet	4.00
	Over 7,000 square feet	5.00

History of Sewer Service Charges. The following table sets forth a history of the District's sewer service charges for the years shown.

Table 6
Fallbrook Public Utility District
History of Sewer Service Charges
2013 – 2017

	2013	2014	2015	2016	2017
Monthly Fixed Charge⁽¹⁾					
¾" Meter	\$12.69	\$13.19	\$14.10	\$14.23	\$16.12
1" Meter	19.23	19.95	21.23	21.55	24.01
1½" Meter	35.59	36.86	39.06	39.86	43.75
2" Meter	55.23	57.15	60.46	61.84	67.42
3" Meter	101.03	104.49	110.38	113.14	122.67
4" Meter	166.47	172.12	181.70	186.36	201.60
6" Meter	330.06	341.20	359.99	369.49	398.91
Monthly Variable Charge⁽²⁾					
Single-Family, Multi-Family & Ag. Domestic	\$7.64	\$7.64	\$7.64	\$8.21	\$8.77
Low-Strength Comm'l.	11.54	11.54	11.54	12.35	13.27
Medium-Strength Comm'l.	11.54	11.54	11.54	12.35	13.27
High-Strength Comm'l.	19.35	19.35	19.35	20.63	22.28

(1) The Wastewater System now bills customers a monthly fixed charge based on EDUs. This new methodology became effective January 1, 2018.

(2) Per 1,000 gallons, based on adjusted water usage for outdoor use.

Source: Fallbrook Public Utility District.

History of Wastewater Capital Improvement Charge (CIC). The following table sets forth a history of the District's Wastewater Capital Improvement Charge (CIC).

Table 7
Fallbrook Public Utility District
History of Wastewater CIC
2013-2021

Fiscal Year Ending June 30,	Monthly Wastewater Capital Charge Per EDU	% Change
2013	\$8.00	--
2014	10.00	25.0%
2015	10.44	4.4
2016	10.70	2.5
2017	10.84	1.3
2018	11.16	3.0
2019	11.53	3.3
2020	11.62	0.8
2021	11.63	0.1

Source: Fallbrook Public Utility District.

Comparison with Neighboring Agencies

The table below sets forth the typical monthly combined sewer service charges for residential customers of the District, and for residential customers in neighboring cities and agencies to which the District compares itself.

Table 8
Fallbrook Public Utility District
Residential Sewer Rate Comparison
(As of January 1, 2020)

City / Agency	Average Rate⁽¹⁾
Escondido	\$47.93
Ramona	67.12
Fallbrook	68.20
Rainbow	71.05
Olivenhain	71.76
Encinitas	72.91

(1) Based on 8.6 units of water used and 3/4" residential water meter size.
Source: Fallbrook Public Utility District.

Collection of Sewer Service Charge; Delinquencies

Billing and Collections. The District bills for water, wastewater and recycled water services (as applicable) on a single bill on a monthly basis. Nearly all of the customers of the Wastewater System are also customers of the Water System.

Billing due dates fall on the 10th, 20th, and 30th of the month depending on meter location in the District. All charges for water and sewer services during specified meter read dates are due and payable when rendered. Bills become delinquent the day after the due date. Residential accounts not paid within 30 days of the due date are sent past due statements and the meters are subject to lock-up for non-payment. Non-Residential accounts not paid within 30 days of the due date are subject to meter lock-up. All water accounts accrue a \$30 Delinquent Processing Fee on the 31st day of delinquency.

Accounts not paid within 30 days after lock-up and accounts that have tampered with the meter to obtain water illegally are subject to removal of meters and permanent disconnection of water service. Standby charges will continue to accrue after the meter has been removed. If a meter has been locked for non-payment for a period of 90 days, it may be placed on Standby Service by the District. Standby Service charges will accrue from that time until an application for service restoration has been received by the District. The District must be notified in a timely manner with the name and mailing address of the new owner or tenant and the upcoming date of transfer. Notification of the transfer of property ownership, or tenancy, is the responsibility of the owner/seller. The District is not responsible for the proration of the final billing if notification is not received prior to the date of sale, or change of tenancy.

Lien for Unpaid Bills. In addition to any other remedy provided in the District's Administrative Code or by law for the collection of any water and wastewater rates, charges or accounts, all rates or service charges provided for in District's Administrative Code shall be charged and become a charge against the property on which the water is furnished and against the owner thereof, and all charges for water so served to a property shall be and become a lien

against the premises upon which the water is used or served. Standby accounts with a delinquent balance greater than \$500 as of April 1st of each year may be sent notification of intent to place delinquent and unpaid charges on the annual tax roll. The notification will be sent by May 1st and provides the customer 60 days to bring the account current. If the amount is not brought current by July 1st, the portion of the delinquency due as of the prior April 1st may be reported to the County Treasurer for inclusion on the annual taxes levied on the property.

If for any reason or cause the sums of money owing for such water services are not paid as required by the terms and provisions of the District's Administrative Code, the District shall have the right to shut off such water, and in no case shall service of water be resumed on the same property until all such delinquencies and additional turn-on charges shall have been paid in full. Delinquent bills from former owners or tenants are the responsibility of the present owner.

Historical Delinquencies. Historically, delinquency rates for the Wastewater System have been low. For example, the delinquency rate for the prior two fiscal years was 0.75% for Fiscal Year 2018-19 and 2.04% for Fiscal Year 2019-20, respectively. Delinquent amounts owed to the District are placed on the County's secured property roll for collection in the fiscal year following delinquency. See "Teeter Plan," below.

Property Taxes; District Assessed Valuations

Overview. The Wastewater Fund receives a share of the 1% general property tax that is levied and collected by the County within Improvement District "S", the boundaries of which are coterminous with the District's wastewater service area.

Assessed Valuations. As provided by Article XIII A of the California Constitution, county assessors' assessed values are to reflect market value as of the date the property was last assessed (or 1975, whichever is more recent), increased by a maximum of 2% per year. Properties may be reassessed by the county only upon a change of at least 51% ownership of existing property or upon new construction. The assessed values of parcels within the service area of the District thus reflect, for undeveloped parcels, the estimate of each county assessor (the "Assessor") of market value when acquired (or 1975, whichever is later), possibly increased by 2% per year, and for parcels on which construction has occurred since their date of acquisition, the Assessor's estimate of market value as of the time of construction, possibly increased by 2% per year. Because of the general limitation to 2% per year in increases in full cash value of properties that remain in the same ownership, the County tax roll does not reflect values uniformly proportional to actual market values.

Historical Assessed Valuations and Top 20 Taxpayers. Table 9 sets forth the historical assessed values for the fiscal years shown, for "Improvement District "S" which corresponds to the former geographic boundaries of the Fallbrook Sanitary District which was merged into the District and became the Wastewater System. Table 10 sets forth the top 20 taxpayers within Improvement District "S" for Fiscal Year 2020-21.

Table 9
Fallbrook Public Utility District
Historical Assessed Valuations – Improvement District “S”

Fiscal Year	Local Assessed	State Assessed	Unsecured Value	Total	% Change
2009-10	\$1,821,146,148	\$225,000	\$36,302,150	\$1,857,673,298	--
2010-11	1,781,731,084	225,000	37,141,389	1,819,097,473	-2.1%
2011-12	1,783,734,000	225,000	33,883,225	1,817,842,225	-0.1%
2012-13	1,773,732,093	225,000	35,613,386	1,809,570,479	-0.5%
2013-14	1,811,990,591	-	34,916,821	1,846,907,412	2.1%
2014-15	1,928,060,834	-	35,184,912	1,963,245,746	6.3%
2015-16	2,021,437,198	-	32,152,307	2,053,589,505	4.6%
2016-17	2,098,501,032	-	31,163,876	2,129,664,908	3.7%
2017-18	2,220,524,962	-	31,902,804	2,252,427,766	5.8%
2018-19	2,337,209,037	-	35,075,356	2,372,284,393	5.3%
2019-20	2,463,512,540	-	35,305,514	2,498,818,054	5.3%
2020-21	2,560,166,231	-	37,819,020	2,597,985,251	4.0%

Source: Fallbrook Public Utility District; San Diego County Auditor-Controller.

Table 10
Fallbrook Public Utility District
Top Taxpayers in Improvement District “S”
Fiscal Year 2020-21

No.	Property Owner	Primary Land Use	2020-21 Assessed Value	% of Total
1.	Fallbrook GR F2 LLC	Shopping Center	24,249,581	0.93%
2.	Albertsons LLC	Supermarket	20,271,577	0.78
3.	Americare Health & Retirement LLC	Assisted Living Facility	19,604,487	0.75
4.	Pine View Preservation LP	Apartments	16,000,000	0.62
5.	CPI/GV Crestview Estates Owner LLC	Mobile Home Park	14,280,000	0.55
6.	Efren R. Cota Ltd.	Apartments	13,246,530	0.51
7.	Axelgaard Manufacturing Co. Ltd.	Industrial	12,969,989	0.50
8.	Sheryl A. Hailey	Residential Properties	12,948,177	0.50
9.	Fallbrook Medical Arts LLC	Medical Offices	11,284,353	0.43
10.	Hampton Family Trust	Residential Properties	10,198,336	0.39
11.	Amber Creek Associates Ltd.	Apartments	9,430,191	0.36
12.	BRCC Investments LLC	Shopping Center	9,363,600	0.36
13.	Fallbrook Village Apartments LLC	Apartments	8,797,620	0.34
14.	Fallbrook Plaza LLC	Shopping Center	8,411,388	0.32
15.	Rec Properties LLC	Apartments	8,297,671	0.32
16.	Ark Properties LLC	Public Storage	8,003,277	0.31
17.	Fallbrook Hills Apartments LLC	Apartments	7,975,654	0.31
18.	J. & V. Voza No. 1 LLC	Apartments	7,646,970	0.29
19.	Sunset Views Apartments LLC	Apartments	7,577,023	0.29
20.	Felipe and Concepcion Jimenez	Apartments	7,158,106	0.28
Total, Top 20 Taxpayers			\$237,714,530	9.15%
Total, 2020-21 Local Assessed Value			\$2,597,985,251	

Source: California Municipal Statistics.

Property Tax Delinquencies; Teeter Plan

General – Teeter Plan. The Board of Supervisors in the County has adopted the “Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds” (the “Teeter Plan”), as provided for in Section 4701 *et seq.* of the California Revenue and Taxation Code. The Teeter Plan provides for the allocation and distribution of property tax levies and collections and of tax sale proceeds. Under this method, the County pays the District 100% of property taxes due to the District and retains any penalties or delinquencies collected to offset such payment. There can be no assurance that the County will not discontinue the Teeter Plan or remove the District, or the property tax payable to the District, from the Teeter Plan in the future.

The Teeter Plan covers not only the District’s portion of the 1.0% general secured property tax levy apportioned to the District each year, but also any delinquencies that the District has placed onto the secured property tax bill for collection.

Historical Property Tax Collections and Delinquencies. The following table sets forth the property tax collections and delinquencies for Improvement District “S” for the fiscal years shown. Notwithstanding the historical delinquency rate shown, the District receives 100% of the property taxes levied for the District by the County pursuant to the Teeter Plan.

Table 11
Fallbrook Public Utility District
Property Tax Levy, Collections and Delinquencies
Improvement District “S”⁽¹⁾

Fiscal Year	Current Property Tax Levy	Total Property Tax Collections	Collections Rate	Delinquency Rate
2009-10	\$785,885	\$773,715	98.5%	1.5%
2010-11	769,673	759,066	98.6%	1.4%
2011-12	769,708	758,639	98.6%	1.4%
2012-13	776,960	766,457	98.6%	1.4%
2013-14	798,786	787,339	98.6%	1.4%
2014-15	847,121	836,401	98.7%	1.3%
2015-16	890,717	879,769	98.8%	1.2%
2016-17	927,792	915,788	98.7%	1.3%
2017-18	978,636	967,619	98.9%	1.1%
2018-19	1,028,393	1,015,057	98.7%	1.3%
2019-20	1,079,727	1,066,408	98.8%	1.2%

(1) As noted above, the County’s Teeter Plan ensures the District will receive 100% of its property tax levy, regardless of delinquencies.

Source: Fallbrook Public Utility District.

Parity Debt

Existing Parity Debt. The only Parity Debt currently outstanding is the 2010 Agreement. In order to finance the cost of a 1-MW solar facility located at the WRP, the District entered into an Installment Sale Agreement, dated as of November 1, 2010 (previously defined as the “**2010 Agreement**”), with California Alternative Energy and Advanced Transportation Financing Authority (the “**CAEATFA**”) in the initial principal amount of \$7,227,000. The 2010 Agreement is secured by a pledge of the “Net Revenues” of the Wastewater System and by a pledge of the “Net Revenues” of the recycled water system, where “Net Revenues” means the

gross revenues less operation and maintenance costs. Pursuant to the Indenture, the 2010 Agreement is Parity Debt; however, unlike the 2010 Agreement, the Bonds are not secured in any manner by net revenues of the recycled water system.

Amounts payable by the District under the 2010 Agreement are pledged to the repayment of the CAEATFA's Qualified Energy Conservation Revenue Bonds (Fallbrook Public Utility District Solar Project), Series 2010, which were issued in the initial principal amount of \$7,227,000. The amount of principal remaining to be repaid by the District under the 2010 Agreement is \$2,968,527.83 and the final maturity is November 18, 2027. The bonds bear interest at 5.74% but qualify for a 70% federal interest subsidy, thereby reducing the effective interest rate to the District to approximately 1.72%. The federal interest subsidy, however, is currently subject to sequestration of 5.7%, which raises the effective interest rate to the District to approximately 1.95%.

Net Revenues of Recycled Water System Available to Bonds. The SRF Loan that is being refunded, in full, by the Bonds, was used to finance the Wastewater Treatment Plant Plan I Rehabilitation Project. This project was completed in 2015 at a total cost of approximately \$30 million, of which approximately \$28.357 million was funded by the SRF Loan. District staff estimates that 30% of the WRP Rehabilitation Project contributed to the tertiary treatment component of the project, which is used to produce recycled water for the District's Recycled Water System. Thus, historically, 30% of SRF loan repayment has been funded by the Recycled Water System and 70% has been funded by the Wastewater System. Although the Bonds are secured solely by the Net Revenues of the Wastewater System, the District may lawfully use available net revenues of the recycled water system to pay up to 30% of the debt service on the Bonds to the extent such net revenues are available.

Historical and Projected Revenues, Expenses and Debt Service Coverage

Table 12 below presents historical Wastewater Fund revenues, expenses and debt service coverage for Fiscal Years 2017-18 to 2019-20 and projected Wastewater Fund revenues, expenses and debt service coverage for Fiscal year 2020-21 to 2024-25.

The revenue and expense projections for Fiscal Year 2020-21 are based on the District's adopted budget and an assumed 2.0% increase in Property Taxes. The projections for Fiscal Years 2021-22 through 2024-25 are based on various assumptions, including the following:

- 4.5% increases in Service Charges for Fiscal Years 2021-22 and 2022-23 (consistent with the previously adopted rates of the District) and 2.0% increases each fiscal year thereafter
- 3.5% increases in Operations & Maintenance Costs each fiscal year
- 3.0% increases in Administrative & General Costs each fiscal year
- 2.0% increases in Property Taxes and 0.5% increases in Capital Improvement Charges each fiscal year

Table 12
Fallbrook Public Utility District
Wastewater Fund Historical and Projected Revenues, Expenses and Debt Service Coverage
Fiscal Years Ending June 30, 2018 – 2020 (Historical)
and June 30, 2021 – 2025 (Projected)

Fiscal Year Ending June 30,	2018 Actual	2019 Actual	2020 Actual	2021 Projected	2022 Projected	2023 Projected	2024 Projected	2025 Projected
Operating Revenues:								
Service Charges	\$5,258,183	\$5,453,590	\$5,924,878	\$6,168,490	\$6,446,072	\$6,736,145	\$6,870,868	\$7,008,286
Other Charges	(15,111)	10,230	6,590	6,590	1,000	1,000	1,000	1,000
Sub-Total	5,243,072	5,463,820	5,931,468	6,175,080	6,447,072	6,737,145	6,871,868	7,009,286
Operating Expenses (excl deprec):								
Operations & Maintenance	3,039,790	2,956,457	3,286,965	3,251,348	3,365,145	3,482,925	3,604,828	3,730,997
Administrative & General	2,316,954	2,090,222	2,178,369	2,262,878	2,330,764	2,400,687	2,472,708	2,546,889
Sub-Total	5,356,744	5,046,679	5,465,334	5,514,226	5,695,910	5,883,613	6,077,536	6,277,886
Net Operating Income	(113,672)	417,141	466,134	660,854	751,163	853,533	794,333	731,400
Non-Operating Revs (Expenses)								
Property Taxes	967,619	1,015,057	1,066,408	1,087,736	1,109,491	1,131,681	1,154,314	1,177,401
Capital Improvement Charges	1,149,667	1,162,117	1,168,350	1,178,775	1,184,669	1,190,592	1,196,545	1,202,528
Investment Income	95	84,296	131,547	40,000	40,000	40,000	40,000	40,000
Connection Fees	290,904	133,729	123,762	110,677	100,000	100,000	100,000	100,000
Sub-Total	2,408,285	2,395,199	2,490,067	2,417,188	2,434,160	2,462,273	2,490,859	2,519,929
NET REVENUES	2,294,613	2,812,340	2,956,201	3,078,042	3,185,322	3,315,806	3,285,192	3,251,328
Debt Service Expense:								
2010 Agreement ⁽¹⁾	367,229	379,131	391,696	404,909	418,859	433,290	448,220	463,663
SRF Loan ⁽²⁾	1,845,746	1,845,746	1,845,746	1,750,772	--	--	--	--
2021 Bonds ⁽²⁾	--	--	--	58,700	1,729,884	1,731,022	1,730,746	1,733,575
Sub-Total	2,212,975	2,224,877	2,237,442	2,214,381	2,148,743	2,164,312	2,178,966	2,197,238
Debt Service Coverage (DSC)	1.04	1.26	1.32	1.39	1.48	1.53	1.51	1.48

(1) The 2010 Agreement secures a Qualified Energy Conservation Bond (QECB) which qualifies for a Federal interest rate subsidy equal to 70% of annual interest expense, subject to sequestration. Amount shown is net of the 70% interest rate subsidy, adjusted for a sequestration rate of 5.70%. The 2010 Agreement is additionally secured by and payable in part from net revenues of the Recycled Water System. See "–Parity Debt – Existing Parity Debt," above.

(2) The SRF Loan is being refunded, in full, with the proceeds of the Bonds.

Source: Fallbrook Public Utility District; 2021 Bond Debt Service from Underwriter.

Assets, Liabilities and Net Position

Table 13 below shows combined Water Fund, Wastewater Fund and Recycled Water Fund assets, liabilities, deferred inflows of resources and net position for the fiscal years shown.

Table 13
Fallbrook Public Utility District
Combined Water Fund, Wastewater Fund and Recycled Water Fund Assets, Liabilities
and Net Position
Fiscal Years Ending June 30, 2018 – 2020 (Audited)

<i>Fiscal Year Ending June 30,</i>	2018	2019	2020
ASSETS			
Current Assets			
Cash and cash equivalents	\$2,810,799	\$3,997,334	\$8,137,414
Investments	8,512,057	11,647,359	7,831,917
Receivables - water sales and services	3,986,912	4,029,630	4,478,619
Accrued interest receivable	79,174	79,724	64,434
Property taxes receivable	9,183	12,370	10,160
Other receivables ⁽¹⁾	142,877	87,217	15,519,773
Inventory	1,985,473	1,839,995	1,845,755
Prepaid expenses and other deposits	62,600	43,393	55,971
Restricted assets			
Cash and cash equivalents	1,388,748	6,693,439	7,496,954
Investments	3,579,612	3,059,526	3,059,526
Total current assets	22,557,435	31,489,987	48,500,523
Noncurrent Assets			
Capital assets			
Capital assets, not being depreciated ⁽²⁾	14,391,257	14,145,536	42,118,554
Capital assets being depreciated, net	100,256,339	99,454,241	98,993,697
Total capital assets, net	114,647,596	113,599,777	141,112,251
Total noncurrent assets	114,647,596	113,599,777	141,112,251
Total assets	137,205,031	145,089,764	189,612,774
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amounts from Pension	3,819,796	3,197,216	3,004,079
Deferred amounts from OPEB	194,371	222,552	231,603
Total Deferred Outflows of Resources	4,014,167	3,419,768	3,235,682
LIABILITIES			
Current liabilities			
Accounts payable ⁽³⁾	3,731,613	2,871,022	18,213,752
Accrued wages	297,812	247,894	208,653
Construction and other deposits	63,142	8,908	14,884
Accrued interest payable	230,365	217,795	258,156
Compensated absences, current portion	516,850	586,045	560,892
Current portion of long-term debt	1,839,651	1,893,596	1,949,162
Total current liabilities	6,679,433	5,825,260	21,205,499
Noncurrent liabilities			
Health retirement account liability	240,814	258,421	351,796
Net OPEB liability	283,769	135,077	109,213
Net pension liability	12,746,294	12,541,929	13,629,333
Retention payable	84,693	30,098	27,771
Compensated absences, net of current portion	775,275	879,067	841,338
Long-term debt, net of current portion	33,474,377	31,580,781	56,963,337
Total noncurrent liabilities	47,605,222	45,425,373	71,922,788
Total liabilities	54,284,655	51,250,633	93,128,287

Table Continues on Next Page

<i>Fiscal Year Ending June 30,</i>	2018	2019	2020
DEFERRED INFLOWS OF RESOURCES			
Deferred amounts from Pension	843,878	957,275	915,032
Deferred amounts from OPEB	7,358	118,346	100,383
Deferred revenue	-	114,851	-
Total Deferred Inflows of Resources	851,236	1,190,472	1,015,415
NET POSITION			
Net investment in capital assets	79,333,568	80,125,400	82,199,752
Restricted for:			
1958 Annex projects	1,213,780	1,213,780	1,213,780
Debt service	2,108,959	2,162,451	2,162,512
Pension	1,388,748	6,101,463	6,811,910
Unrestricted	2,038,252	6,465,333	6,316,800
Total Net Position	86,083,307	96,068,427	98,704,754

(1) Increase in Fiscal Year 2019-20 relates to approximately \$15.4 million in State loan proceeds receivable for the Santa Margarita River Conjunctive Use Project. Such loan is an obligation of the District's water system and is not secured by revenues of the Wastewater System.

(2) Increase in Fiscal Year 2019-20 relates to facilities being constructed with respect to the Santa Margarita River Conjunctive Use Project.

(3) Increase in Fiscal Year 2019-20 relates to Santa Margarita River Conjunctive Use Project construction-related costs.

Source: Fallbrook Public Utility District audited financial statements 2017-18 through 2019-20.

Investments

As of June 30, 2020, the District had the following investments in its investment portfolio. *The following information reflects District-wide operations, which includes the District's water system, recycled water system and Wastewater System on a combined basis.*

Table 14
Fallbrook Public Utility District
Investment Portfolio – As of June 30, 2020⁽¹⁾

Account	Market Value
Operating Fund	\$19,525
Money Market	1,511,221
County Pool	--
CAMP Account ⁽²⁾	2,562,569
PFM-Managed Long-Term Investment Portfolio	11,233,386
LAIF (Long-term reserves) ⁽³⁾	3,676,617
PARS (OPEB & Pension Trust)	7,852,397
Total⁽¹⁾	\$26,855,715

(1) Represents all of the District's investment accounts and balances, only a portion of which is held for the Wastewater System.

(2) CAMP is the California Asset Management Program, which is administered by a joint powers authority established in 1989 to provide local agencies with professional investment services.

(3) LAIF is the State Treasurer's Local Agency Investment Fund.

Source: Fallbrook Public Utility District.

Pension and OPEB Plans

Allocation of Benefits. The District's benefit costs are allocated to each of the District's 3 services based upon its share of the budgeted salary and wages. This allocation methodology aligns the benefit cost allocation with salary and wages, which are the primary determinants of the benefit costs.

California Public Employees Retirement System. The District contributes to the California Public Employees Retirement System ("CalPERS"), a cost-sharing multi-employer defined benefit pension plan (the "Plan"). CalPERS provides retirement and disability benefits,

annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public agencies within the State of California.

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The District has two benefit tiers for its employees. The Classic employees are eligible to receive 2.5% of their single highest annual salary for each year of service at the age of 55. An employee hired after January 1, 2013, and is new to CalPERS, or those that have had a break in service of more than six-months fall under the California Public Employees' Pension Reform Act of 2013 ("PEPRA"). PEPRA employees are eligible to receive 2.0% of the highest three-year average annual salary for each year of service at the age of 62. Both Classic and PEPRA employees are potentially subject to salary maximums when determining their benefit. For additional details, see APPENDIX B – "COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDING JUNE 30, 2020."

Annual Contributions, Unfunded Accrued Liability and Net Pension Liability. CalPERS collects employer contributions for the Plan as a percentage of payroll at the Plan's actuarially determined rate. The Normal Cost Rate ("NCR") is the percentage of payroll that is contributed to CalPERS to pay for the benefit earned by employees in the current year. This rate is expressed as a percent of payroll. The NCR for Classic employees for Fiscal Year 2020-21 is 13.146% of payroll, which is up from the Fiscal Year 2019-20 is 12.142%. The NCR for PEPRA employees is 7.874% of payroll in Fiscal Year 2020-21 and was 7.072% in Fiscal Year 2019-20.

GASB Statement No. 68 requires the District to annually calculate its "net pension liability," which is the difference between the total pension liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries. As of June 30, 2020 (which is based on a measurement date of June 30, 2019), the District reported net pension liability of \$13,629,333.

For additional details on the District's pension liabilities, and the assumptions included therein, see APPENDIX B.

Other Post-Employment Benefits ("OPEB") Plan Description. Employees retiring after age 50, with 10 or more years of continuous employment, will have the mandatory amount estimated by the District at the date of retirement to be necessary to pay for 50% of the employee's monthly health insurance premium, and any additional costs for spouse and dependent(s) covered at the time of retirement. The difference between the total value of sick leave at retirement and the estimated cost benefit (medical, dental and vision) minus the estimated costs of 50% of the retiree's medical premium is deposited into a health reimbursement account at the District to pay for retiree benefits until Medicare entitlement or the account is depleted. The District's health reimbursement account (HRA) balance as of June 30, 2019 is \$258,421. The District will pay for half (50%) of the retired employee's monthly premium.

As of the June 30, 2018 actuarial valuation date, there were 73 total participants in the OPEB plan. The District has historically funded the plan on a pay-as-you-go basis. Plan members are not required to contribute to the OPEB Plan. For the fiscal year ended June 30, 2019, the District made \$42,356 in payments made outside of the Section 115 Trust

GASB Statement No. 75 requires the District to annually calculate its “net OPEB liability,” which is the cumulative difference between annual OPEB cost and the employer’s contributions to a plan. As of June 30, 2020 (which is based on a measurement date of June 30, 2019), the District reported net OPEB liability of \$109,213.

For additional details on the District’s OPEB liability, and the assumptions included therein, see APPENDIX B.

Section 115 Pension and OPEB Trust Fund. In Fiscal Year 2016-17, the District established a “Section 115 Trust Fund” as an irrevocable trust established for the benefit of the pension and OPEB beneficiaries. The fund is managed by Public Agency Retirement Services (“PARS”) and is restricted in its use to funding pension and OPEB expenditures. The funds restricted for OPEB and pension costs are tracked in the fund. As of June 30, 2020, the fund balance was approximately \$7.9 million. Taking the Section 115 fund balance in account, the District estimates that its OPEB obligation is over 84% funded. A \$500,000 contribution to the Section 115 trust is included in the Fiscal Year 2020-21 budget. The District has developed a strategy to use returns from the fund to help off-set on-going OPEB costs.

RISK FACTORS

Wastewater System Demand

There can be no assurance that the demand for wastewater services will occur as described in this Official Statement. Reduction in levels of demand could require an increase in rates or charges to comply with the covenants to fix rates and charges.

Wastewater System Expenses

There can be no assurance that the District’s expenses will be consistent with the descriptions in this Official Statement. Increases in expenses could require an increase in rates or charges to comply with the rate covenant.

Regulatory Requirements

The operations of the Wastewater System are subject to state and federal laws and regulations, particularly with respect to water quality discharge requirements. The adoption of more stringent laws or regulations may cause the District to incur greater expenses for the operation of the Wastewater System. No assurance can be given that the costs of complying with any such new laws or regulations will not adversely affect the District’s ability to generate sufficient Net Revenues in the amounts or on the schedule required by the Indenture.

To the extent regulatory agencies or other governmental agencies impose more stringent requirements on the District’s discharge of treated wastewater, costs could increase.

Natural Disasters

General. From time to time, the service area of the District is subject to natural calamities that may adversely affect economic activity in the District, which could have a negative impact on Wastewater System finances. There can be no assurance that the occurrence of any natural calamity would not cause substantial damage to the Wastewater System, or that the District would have insurance or other resources available to make repairs to the Wastewater System in order to generate sufficient Net Revenues to pay debt service on the Bonds when due. The casualty and liability insurance maintained by the District may not cover damages and losses to the Wastewater System due to earthquake, fire, flood or other natural calamities.

Seismic. Like most of California, the service area of the District is subject to unpredictable seismic events such as earthquakes. Potential hazards related to earthquakes include ground shaking, surface rupture along the fault zone, and related secondary ground failures. Typical seismically-induced ground failures include liquefaction, lateral spreading, ground lurching, landslides, inundation, and settlement. Seismic events could destroy or damage portions of the Wastewater System, thereby increases the District's expenses, or reduce demand for its wastewater service by damaging businesses and residential dwelling that are customers, thereby decreasing revenues.

Flooding. Portions of the service area of the District are subject to flooding from time to time, primarily as a result of large-scale winter rain events. Flooding may cause damage to the District's facilities or other structures within the District's service area and any such damage may be material.

Fire. In recent years, portions of California have experienced wildfires that have burned thousands of acres and destroyed thousands of homes and structures, even in areas not previously thought to be prone to wildfires. Such areas affected by wildfires are more prone to flooding and mudslides that can further lead to the destruction of homes. Fires may cause damage to District facilities or other structures within the District's service area and any such damage may be material. To date, there have been no wildfires in the District's service area that have destroyed a significant amount of property or disrupted service for any significant period of time.

Climate Change

Numerous scientific studies on global climate change show that, among other effects on the global ecosystem, sea levels will rise, extreme temperatures will become more common, and extreme weather events will become more frequent as a result of increasing global temperatures attributable to atmospheric pollution. For example, the Fourth National Climate Assessment, published by the U.S. Global Change Research Program, in November 2018 (NCA4) finds that more frequent and intense extreme weather and climate-related events, as well as changes in average climate conditions, are expected to continue to damage infrastructure, ecosystems and social systems over the next 25 to 100 years.

Cybersecurity

The District, like many other public and private entities, relies on computer and other digital networks and systems to conduct its operations and finances. As a recipient and provider of personal, private and other sensitive electronic information, the District is potentially subject to multiple cyber threats including, but not limited to, hacking, viruses, malware, ransomware

and other attacks on computer and other sensitive digital networks and systems. Entities or individuals may attempt to gain unauthorized access to the District's systems for the purposes of misappropriating assets or information or causing operational disruption or damage.

The District has never had a major cyber breach that resulted in a financial loss or operational disruption. The District provides training to its staff on phishing and safe browsing and how to avoid potential cyber threats. However, no assurances can be given that the security and operational control measures of the District will be successful in guarding against any and each cyber threat or breach.

Limited Recourse on Default

If the District defaults on its obligation to make the debt service payments under the Indenture, the Trustee has the right to accelerate the total unpaid principal amount of such payments. However, in the event of a default and such acceleration there can be no assurance that the District will have sufficient funds to pay the accelerated payments.

Limitations on Remedies

The ability of the District to comply with its covenants under the Indenture and to generate Net Revenues sufficient to pay principal of and interest on the Bonds may be adversely affected by actions and events outside of the control of the District, and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or payers of assessments, fees and charges. See “– Constitutional Limitations on Appropriations and Fees” below. Furthermore, any remedies available to the Owners of the Bonds upon the occurrence of an Event of Default under the Indenture are in many respects dependent upon judicial actions, which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

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

Articles XIIC and XIID

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

In addition, Article XIID includes a number of limitations applicable to existing fees and charges including provisions to the effect that: (a) revenues derived from the fee or charge may not exceed the funds required to provide the property-related service; (b) such revenues may not be used for any purpose other than that for which the fee or charge was imposed; (c) the amount of a fee or charge imposed upon any parcel or person as an incident of property ownership may not exceed the proportional cost of the service attributable to the parcel; (d) 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; and (e) no fee or charge may be imposed for general governmental purposes.

Based upon the California 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 State Supreme Court, it was generally believed that Article XIID did not apply to charges for water services that are “primarily based on the amount consumed” (i.e., metered water rates), which had been held to be commodity charges related to consumption of the service, not property ownership. The Supreme Court stated in *Bighorn-Desert View Water Agency v. Verjil*, 39 Cal. 4th 205 (2006) (the “Bighorn Case”), however, that fees for ongoing water service through an existing connection were property-related fees and charges. The Supreme Court specifically disapproved the holding in *Howard Jarvis Taxpayers Association v. City of Los Angeles* that metered water rates are not subject to Proposition 218. The District has complied with the notice and public hearing requirements of Article XIID in establishing Wastewater System rates and charges.

Article XIIC. Article XIIC provides that the initiative power may 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 is applicable to all local governments. Article XIIC does not define the terms “local tax,” “assessment,” “fee” or “charge,” so it was unclear whether the definitions set forth in Article XIID referred to above are applicable to Article XIIC. Moreover, the provisions of Article XIIC are not expressly limited to local taxes, assessments, fees and charges imposed after November 6, 1996. On July 24, 2006, the Supreme Court held in the Bighorn Case that the provisions of Article XIIC included rates and fees charged for domestic water use. In the decision, the Court noted that the decision did not address whether an initiative to reduce fees and charges could override statutory rate setting obligations. In any event, the District does not believe that Article XIIC

grants to the voters within the District the power to repeal or reduce rates and charges for the wastewater service in a manner which would be inconsistent with the contractual obligations of the District. However, there can be no assurance of the availability of particular remedies adequate to protect the beneficial owners of the Bonds. Remedies available to beneficial owners of the Bonds in the event of a default by the District are dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time consuming to obtain. So long as the Bonds are held in book-entry form, DTC (or its nominee) will be the sole registered owner of the Bonds and the rights and remedies of the Bond Owners will be exercised through the procedures of DTC.

Proposition 26

Proposition 26 was approved by the electorate at the November 2, 2010 election and amended California Constitution Articles XIII A and XIII C. The proposition imposes a two-thirds voter approval requirement for the imposition of fees and charges by the State. It also imposes a majority voter approval requirement on local governments with respect to fees and charges for general purposes, and a two-thirds voter approval requirement with respect to fees and charges for special purposes. Proposition 26, according to its supporters, is intended to prevent the circumvention of tax limitations imposed by the voters in California Constitution Articles XIII A, XIII C and XIII D pursuant to Proposition 13, approved in 1978, Proposition 218, approved in 1996, and other measures through the use of non-tax fees and charges. Proposition 26 expressly excludes from its scope a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable cost to the State or local government of providing the service or product to the payor. Proposition 26 applies to charges imposed or increased by local governments after the date of its approval. The District believes its Wastewater System rates and charges are not taxes under Proposition 26. The District is unable to predict at this time how Proposition 26 will be interpreted by the courts or what its ultimate impact will be.

Constitutional Limitations on Appropriations and Fees

Under Article XIII B of the California Constitution, as amended, state and local government entities have an annual “appropriations limit” which limits their ability to spend certain moneys called “appropriations subject to limitation,” which consist of tax revenues, certain state subventions and certain other moneys, including user charges to the extent they exceed the costs reasonably borne by the entity in providing the service for which it is levying the charge. The District is of the opinion that the user charges of the Wastewater System imposed by the District do not exceed the costs the District reasonably bears in providing the Wastewater 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 the consumer price index, population, and services provided by these entities. Among other provisions of Article XIII B, if an entity’s revenues in any year exceed the amount permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

Future Initiatives

Articles XIII B, XIII C and XIII D were adopted as measures that qualified for the ballot pursuant to California’s initiative process. From time to time other initiatives have been and could be proposed and adopted affecting the Wastewater System’s revenues or ability to increase revenues. Neither the nature and impact of these measures nor the likelihood of qualification for ballot or passage can be anticipated by the District.

COVID-19 Pandemic

The ongoing spread of the COVID-19 coronavirus pandemic, and responses intended to slow its spread, may result in material adverse impacts to the Wastewater System and its finances. There can be no assurances that the spread of the virus and the related shelter in place orders and social distancing requirements imposed by the State of California, or other State or local mandates and/or other responses intended to slow its spread will not materially adversely impact the revenues received by the Wastewater System, particularly connection fees and other amounts tied to economic activity in the service area.

The District is monitoring the COVID-19 pandemic but is not yet able to fully predict the effect it will have on the financial performance or operations of the Wastewater System. The COVID-19 pandemic and the governmental actions to respond to it have resulted in a significant contraction of the national, state and local economies. Employment data released since the imposition of the restrictions have shown a dramatic increase in unemployment rates. In addition, stock markets in the U.S. and globally experienced sharp declines in market value following the onset of the outbreak that were attributed to COVID-19 concerns and, although rebounds in the market have since occurred, increased volatility in the financial markets continues. It is widely expected that global, national and local economies will continue to be negatively affected by the COVID-19 pandemic, at least for some period of time.

To date, the Wastewater System has not experienced any material adverse impact from COVID-19 and no specific customer concessions or deferral assistance plans have been set up by the District, but this may change without notice in the future.

The District cannot predict (i) the duration or ultimate extent of the COVID-19 pandemic; (ii) to what extent the COVID-19 pandemic may affect the operations and revenues of the Wastewater System in the future; (iii) to what extent the COVID-19 pandemic may ultimately disrupt the local, State, national or global economy, manufacturing or supply chain, or whether any such disruption will adversely impact Wastewater System the cost, sources of funds, schedule or implementation of any capital improvements, or other Wastewater System operations; (iv) to what extent the District may desire to, or need to, provide customer assistance measures or deferrals, forbearances, adjustments or other changes to its customers or its billing and collection procedures; or (v) whether any of the foregoing may have a material adverse effect on the finances and operations of Wastewater System. Prospective investors should consider that the restrictions and limitations instituted related to COVID-19 may increase (even after they are decreased), and the upheaval to the national and global economies may continue and/or be exacerbated, at least over the near term, and the recovery may be prolonged, and therefore, COVID-19 may adversely impact Wastewater System revenues.

Future Tax Revenues available to pay debt service on the Bonds could be negatively impacted by COVID-19, including because upcoming property tax installments could be deferred, or some taxpayers may be unable to make their property tax payments. As a measure to assist certain taxpayers impacted by COVID-19, on May 6, 2020 the Governor of the State issued Executive Order N-61-20 which waives penalties and interest on property tax installments for residential property occupied by the taxpayer and certain other real property which is used for a small business, subject to certain filing requirements and proof of economic hardship due to COVID-19 or any local, state or federal response to COVID-19. The order applies to taxes not delinquent prior to March 4, 2020, and waives and forgives penalties and interest through May 6, 2021. Negative impacts on Tax Revenues could be offset because the County operates under the Teeter Plan, which shields the Tax Revenues from delinquencies; however, the County is under no legal obligation to maintain the Teeter Plan in the future.

Future costs to the District could also be increased in the event that a sustained deterioration in global stock market values as an economic consequence of the COVID-19 pandemic negatively impacts the market value of assets held to fund the District's pension plans, requiring future unanticipated increases in required plan contributions.

CONTINUING DISCLOSURE

The District has never previously entered into any continuing disclosure obligation under the Rule.

The District has covenanted for the benefit of owners of the Bonds to provide certain financial information and operating data relating to the District and the Wastewater System by not later than March 1st following the end of each fiscal year (presently June 30), commencing with its report for the fiscal year ended June 30, 2021 (the "Annual Report"), due March 1, 2022, and to provide notices of the occurrence of certain enumerated events. The Annual Reports and notices of enumerated events will be filed with the Municipal Securities Rulemaking Board (the "MSRB"). These covenants have been made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12 (the "Rule"). The specific nature of the information to be contained in the Annual Report and the enumerated events is summarized in APPENDIX F – "FORM OF CONTINUING DISCLOSURE AGREEMENT."

LEGAL OPINIONS

Legal matters incident to the authorization and issuance of the Bonds are subject to the approving opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, and certain other conditions. Jones Hall is also serving as Disclosure Counsel to the District. Certain legal matters will be passed upon for the District by the District's general counsel, Best Best & Krieger LLP. The compensation of Bond Counsel and Disclosure Counsel is contingent on the successful sale of the Bonds.

TAX MATTERS

Federal Tax Status. In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to the qualifications set forth below, under existing law, the interest on the Series A Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax.

The opinions set forth in the preceding paragraph are subject to the condition that the District comply with all requirements of the Internal Revenue Code of 1986, as amended (the "**Tax Code**") that must be satisfied subsequent to the issuance of the Series A Bonds in order that the interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The District has made certain representations and covenants in order to comply with each such requirement. Inaccuracy of those representations, or failure to comply with certain of those covenants, may cause the inclusion of such interest in gross income for federal income tax purposes, which may be retroactive to the date of issuance of the Series A Bonds.

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

Series A Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes “original issue premium” for purposes of federal income taxes and State of California personal income taxes. *De minimis* original issue discount and original issue premium are disregarded.

Under the Tax Code, original issue discount is treated as interest excluded from federal gross income and exempt from State of California personal income taxes to the extent properly allocable to each owner thereof subject to the limitations described in the first paragraph of this section. The original issue discount accrues over the term to maturity of the Series A Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such Series A Bonds to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such Series A Bond. The Tax Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the Series A Bonds who purchase the Series A Bonds after the initial offering of a substantial amount of such maturity. Owners of such Series A Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series A Bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering to the public at the first price at which a substantial amount of such Series A Bonds is sold to the public.

Under the Tax Code, original issue premium is amortized on an annual basis over the term of the Series A Bond (said term being the shorter of the Series A Bond’s maturity date or its call date). The amount of original issue premium amortized each year reduces the adjusted basis of the owner of the Series A Bond for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a Series A Bond is amortized each year over the term to maturity of the Series A Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). Amortized Series A Bond premium is not deductible for federal income tax purposes. Owners of premium Series A Bonds, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to State of California personal income tax and federal income tax consequences of owning such Series A Bonds.

California Tax Status. In the further opinion of Bond Counsel, interest on the Bonds is exempt from California personal income taxes.

Other Tax Considerations. Current and future legislative proposals, if enacted into law, clarification of the Tax Code or court decisions may cause interest on the 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 legislative proposals, clarification of the Tax Code or court decisions may also affect the market price for, or marketability of, the Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, such legislation would apply to bonds issued prior to enactment.

The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of such opinion, and Bond Counsel has expressed no opinion with respect to any proposed legislation or as to the tax treatment of interest on the Bonds, or as to the consequences of owning or receiving interest on the Bonds, as of any future date. Prospective purchasers of the Bonds

should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

Owners of the Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may have federal or state tax consequences other than as described above. Other than as expressly described above, Bond Counsel expresses no opinion regarding other federal or state tax consequences arising with respect to the Bonds, the ownership, sale or disposition of the Bonds, or the amount, accrual or receipt of interest on the Bonds.

The form of the proposed opinion of Bond Counsel is attached as APPENDIX E.

NO LITIGATION

There is no action, suit, or proceeding pending or, to the best knowledge of the District, threatened at the present time restraining or enjoining the delivery or in any way contesting or affecting the validity of the Bonds, the Indenture or the proceedings of the District taken with respect to the execution or delivery thereof.

Except as otherwise described herein, there is no action, suit or proceeding known to be pending or threatened against the District contesting or affecting the ability of the District to collect amounts from which debt service on the Bonds are payable, or which would have a material adverse effect on the District, including the District's ability to pay debt service on the Bonds.

RATINGS

It is anticipated that S&P Global Ratings ("**S&P**") will assign its municipal bond rating of "AA" to the Bonds, based on the understanding that BAM will issue its Insurance Policy in connection with the issuance of the Bonds. S&P has also assigned an underlying municipal bond rating of "A+" to the Bonds. These ratings reflect only the views of S&P, and an explanation of the significance of such ratings may be obtained from S&P.

There is no assurance that any rating will continue for any given period of time for the Bonds or that it will not be revised downward or withdrawn entirely by S&P, if, in the judgment of S&P, circumstances so warrant. The District undertakes no responsibility to oppose any downward revision or withdrawal of any rating obtained. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

MUNICIPAL ADVISOR

The District has retained Steven Gortler, San Francisco, California as municipal advisor (the "**Municipal Advisor**") in connection with the structuring, marketing and pricing of the Bonds. The Municipal Advisor has reviewed this Official Statement but makes no guaranty, warranty or other representation respecting the accuracy and completeness of the information contained herein.

UNDERWRITING

Stifel, Nicolaus & Company, Incorporated, as underwriter (the "**Underwriter**"), is purchasing the Series A Bonds from the District at an aggregate purchase price of

\$18,597,044.30 (representing for the Series A Bonds the \$14,845,000.00 aggregate principal amount of the Series A Bonds, plus \$3,806,331.60 of original issue premium, less \$54,287.30 of Underwriter's discount, and for the Series B Bonds the purchase price of \$5,016,587.30 (representing the \$5,035,000.00 aggregate principal amount of the Series B Bonds, less \$18,412.70 of Underwriter's discount). The public offering prices may be changed from time to time by the Underwriter. The Underwriter may offer and sell the Bonds to certain dealers and others at prices lower than the offering prices shown on the inside cover page hereof.

MISCELLANEOUS

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

The preparation and distribution of this Official Statement has been duly authorized by the District.

FALLBROOK PUBLIC UTILITY DISTRICT

By: _____ /s/ Jack Bebee
General Manager

APPENDIX A

GENERAL INFORMATION ABOUT FALLBROOK AND SAN DIEGO COUNTY

The following information is included only for the purpose of supplying general information regarding the unincorporated community of Fallbrook and the County of San Diego (the “County”). This information is provided only for general informational purposes and provides prospective investors limited information about this region and its economic base. The Bonds are not a debt of the State, the County or any of its political subdivisions, and neither the State, the County nor any of its political subdivisions is liable therefor.

The County. The County is the southern-most county in California. The County covers an area of approximately 4,280 square miles, about the size of the state of Connecticut. The County is bordered by the Pacific Ocean to the west, Orange and Riverside Counties to the north, Imperial County to the east, and the State of Baja California, Mexico to the south. The County includes 70 miles of the Pacific Ocean coastline, the Anza-Borrego Desert, which forms the eastern third of the county, the Laguna Mountains, the San Diego Bay, one of the world’s largest natural deep-water harbors, and the San Diego International Airport.

The County possesses a diverse economic base consisting of electronics manufacturing and shipbuilding, tourism, biotech and software development, and defense-related industries. The County is also growing as a center for culture and education. Over 30 recognized art organizations including the San Diego Opera, the Old Globe Theater productions, the La Jolla Chamber Orchestra, as well as museums and art galleries, are located in the County.

The County was incorporated on February 18, 1850 and functions under a charter adopted in 1933 and is amended from time to time. The County is governed by a five-member Board of Supervisors elected to four-year terms in district nonpartisan elections. The Board of Supervisors appoints the Chief Administrative Officer and the County Counsel. Elected officials include the Assessor/County Clerk/Recorder, District Attorney, Sheriff and Treasurer/Tax Collector.

Population

The following sets forth the County and the State population estimates as of January 1 for the years 2016 to 2020.

SAN DIEGO COUNTY AND STATE OF CALIFORNIA Estimated Population

Year (January 1)	San Diego County	State of California
2016	3,285,150	39,131,307
2017	3,306,889	39,398,702
2018	3,326,318	39,586,646
2019	3,340,312	39,695,376
2020	3,343,355	39,782,870

Source: State of California Department of Finance, Demographic Research Unit.

Industry and Employment

The District is included in the San Diego-Carlsbad Metropolitan Statistical Area (“**MSA**”), which includes all of the County. The unemployment rate in San Diego County was 13.9 percent in June 2020, down from a revised 15.2 percent in May 2020, and above the year-ago estimate of 3.3 percent. This compares with an unadjusted unemployment rate of 15.1 percent for California and 11.2 percent for the nation during the same period.

Set forth below is data from 2015 to 2019, reflecting the County’s civilian labor force, employment and unemployment.

**SAN DIEGO-CARLSBAD MSA
(San Diego County)
Annual Average Labor Force, Employment and Unemployment,
Unemployment by Industry
(March 2019 Benchmark)**

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Civilian Labor Force ⁽¹⁾	1,550,100	1,564,300	1,574,600	1,592,200	1,590,600
Employment	1,469,500	1,490,500	1,511,400	1,539,500	1,539,900
Unemployment	80,600	73,900	63,200	52,700	50,700
Unemployment Rate	5.2%	4.7%	4.0%	3.3%	3.2%
<u>Wage and Salary Employment: ⁽²⁾</u>					
Agriculture	9,100	8,900	8,700	9,100	9,600
Mining and Logging	300	300	300	300	400
Construction	69,900	76,300	79,500	84,200	84,000
Manufacturing	106,600	108,400	109,400	112,700	115,100
Wholesale Trade	44,100	43,700	43,800	43,700	44,200
Retail Trade	146,800	147,500	149,000	148,200	145,400
Transportation, Warehousing and Utilities	28,400	29,700	32,000	33,500	34,400
Information	23,800	23,700	24,000	24,000	23,500
Finance and Insurance	43,500	45,100	46,300	46,800	46,200
Real Estate and Rental and Leasing	27,900	27,900	28,400	29,100	30,200
Professional and Business Services	229,300	234,500	238,800	248,800	256,600
Educational and Health Services	192,700	198,700	204,300	210,500	216,000
Leisure and Hospitality	182,400	190,400	195,600	199,900	202,400
Other Services	53,200	54,400	55,000	55,400	55,800
Federal Government	46,000	46,800	46,900	46,900	47,700
State Government	45,700	47,600	49,300	50,700	52,100
Local Government	144,500	147,900	150,100	150,000	149,900
Total, All Industries ⁽³⁾	1,394,100	1,431,800	1,461,300	1,493,800	1,513,500

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

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

(3) Totals may not add due to rounding.

Source: State of California Employment Development Department.

Largest Employers

The largest manufacturing and non-manufacturing employers as of August 2020 in the County are shown below, in alphabetical order.

SAN DIEGO COUNTY Largest Employers August 2020

Employer Name	Location	Industry
32nd St Naval Station	San Diego	Federal Government-National Security
Barona Resort & Casino	Lakeside	Casinos
Ceasar Entertainment	Valley Center	Swimming Pool Contrs Dealers & Designers
Employees'association-Sdg-E	San Diego	Associations
General Dynamics NASSCO	San Diego	Ship Builders & Repairers (mfrs)
Illumina Inc	San Diego	Biotechnology Products & Services
Kaiser Permanente Vandever Med	San Diego	Physicians & Surgeons
Kaiser Permanente Zion Med Ctr	San Diego	Hospitals
Mccs Mcrd	San Diego	Towing-Marine
Merchants Building Maintenance	San Diego	Janitor Service
Rady Children's Hospital	San Diego	Hospitals
Respiratory Support Prod Inc	San Diego	Nonclassified Establishments
San Diego Community College	San Diego	Junior-Community College-Tech Institutes
San Diego County Sheriff	Santee	Police Departments
Scripps Mercy Hosp Sn Diego	San Diego	Hospitals
Scripps Research Institute	La Jolla	Laboratories-Research & Development
Seaworld San Diego	San Diego	Water Parks
Sharp Mary Birch Hosp	San Diego	Hospitals
Sharp Memorial Hospital	San Diego	Hospitals
Sony Electronics	San Diego	Electronic Equipment & Supplies-Retail
Uc San Diego Health	San Diego	Health Care Management
Ucsd	La Jolla	University-College Dept/Facility/Office
University of California	La Jolla	University-College Dept/Facility/Office
University-California Sn Diego	La Jolla	Schools-Universities & Colleges Academic
US Navy Med Ctr-Orthopedics	San Diego	Clinics

Source: California State Employment Development Department, extracted from the America's Labor Market Information System (ALMIS) Employer Database, 2020 1st Edition.

Commercial Activity

A summary of historic taxable sales within the County during the past five years in which data is available is shown in the following table. Total taxable sales during the first quarter of calendar year 2020 in the County were reported to be \$13,766,495,651 a 12.28% decrease over the total taxable sales of \$12,260,424,497 reported during the first quarter of calendar year 2019.

SAN DIEGO COUNTY Taxable Retail Sales Number of Permits and Valuation of Taxable Transactions (Dollars in thousands)

	<u>Retail Stores</u>		<u>Total All Outlets</u>	
	<u>Number of Permits</u>	<u>Taxable Transactions</u>	<u>Number of Permits</u>	<u>Taxable Transactions</u>
2015	36,549	\$37,989,566	95,645	\$54,185,588
2016	58,391	38,576,362	95,435	55,407,866
2017	59,798	39,814,405	97,412	56,993,548
2018	59,836	41,886,825	100,674	59,041,042
2019	59,447	42,748,210	101,901	61,106,480

Source: State Department of Tax and Fee Administration.

Construction Activity

The following table shows valuation summaries of building permits issued in the County for the past five years:

SAN DIEGO COUNTY Building Activity and Permit Valuation (Dollars in Thousands)

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
<u>Permit Valuation:</u>					
New Single-family	\$1,069,273.0	\$833,134.7	\$1,378,079.4	\$1,201,187.4	\$1,022,156.9
New Multi-family	1,028,733.2	1,256,903.3	912,036.6	992,359.0	668,849.0
Res. Alterations/Additions	<u>349,035.7</u>	<u>382,198.9</u>	<u>342,709.7</u>	<u>480,327.0</u>	<u>393,649.1</u>
Total Residential	2,447,041.9	2,472,236.8	2,632,825.7	2,673,873.4	2,084,655.1
New Commercial	521,789.4	560,233.1	770,075.8	510,108.1	861,274.4
New Industrial	77,376.7	18,721.1	68,351.7	25,882.0	40,892.2
New Other	493,580.0	317,405.0	443,191.1	239,647.3	223,176.2
Com. Alterations/Additions	<u>769,756.1</u>	<u>981,463.0</u>	<u>1,089,684.1</u>	<u>1,126,206.2</u>	<u>1,234,198.2</u>
Total Nonresidential	\$1,862,502.2	\$1,877,822.2	\$2,371,302.7	\$1,901,843.6	\$2,359,550.0
<u>New Dwelling Units</u>					
Single Family	3,136	2,420	3,960	3,438	3,045
Multiple Family	<u>6,869</u>	<u>7,680</u>	<u>6,056</u>	<u>6,132</u>	<u>4,405</u>
TOTAL	10,005	10,100	10,016	9,570	7,450

Source: Construction Industry Research Board, Building Permit Summary.

Effective Buying Income

“Effective Buying Income” is defined as personal income less personal tax and nontax payments, a number often referred to as “disposable” or “after-tax” income. Personal income is the aggregate of wages and salaries, other labor-related income (such as employer contributions to private pension funds), proprietor’s income, rental income (which includes imputed rental income of owner-occupants of non-farm dwellings), dividends paid by corporations, interest income from all sources, and transfer payments (such as pensions and welfare assistance). Deducted from this total are personal taxes (federal, state and local), nontax payments (fines, fees, penalties, etc.) and personal contributions to social insurance. According to U.S. government definitions, the resultant figure is commonly known as “disposable personal income.”

The following table summarizes the total effective buying income for the census-designated place of Fallbrook, the County, the State and the United States for 2016 through 2020.

FALLBROOK CFD, SAN DIEGO COUNTY, STATE OF CALIFORNIA AND UNITED STATES Effective Buying Income 2016 through 2020

<u>Year</u>	<u>Area</u>	<u>Total Effective Buying Income (000's Omitted)</u>	<u>Median Household Effective Buying Income</u>
2016	Fallbrook	\$686,433	\$48,558
	San Diego County	84,949,559	55,146
	California	981,231,666	53,589
	United States	7,757,960,399	46,738
2017	Fallbrook	\$703,889	\$47,563
	San Diego County	91,727,879	58,408
	California	1,036,142,723	55,681
	United States	8,132,748,136	48,043
2018	Fallbrook	\$702,966	\$50,487
	San Diego County	96,442,532	61,649
	California	1,113,648,181	59,646
	United States	8,640,770,229	50,735
2019	Fallbrook	\$752,060	\$52,954
	San Diego County	102,896,146	65,279
	California	1,183,264,399	62,637
	United States	9,017,967,563	52,841
2020	Fallbrook	\$815,922	\$57,936
	San Diego County	108,796,519	68,543
	California	1,243,564,816	65,870
	United States	9,487,165,436	55,303

Source: The Nielsen Company (US), Inc for years 2016 through 2018; Claritas, LLC for 2019 through 2020.

Transportation

Surface, sea and air transportation facilities serve County residents and businesses. Interstate 5 parallels the coast from Mexico to the Los Angeles Area and points north. Interstate 15 runs inland, leading the Riverside-San Bernardino, Las Vegas, and Salt Lake City. Interstate 8 runs eastward through the southern United States.

San Diego's International Airport (Lindbergh Field) is located approximately one mile west of the downtown area at the edge of San Diego Bay. The facilities are owned and maintained by the San Diego Unified Port District and are leased to commercial airlines and other tenants. The airport is California's third most active commercial airport, served by 21 major airlines. In addition to San Diego International Airport, there are several general aviation airports located in the County, including McClellan-Palomar Airport in Encinitas.

Public transit in the metropolitan area is provided by the Metropolitan Transit Development Board. The San Diego Trolley, developed by the Metropolitan Transit Development Board beginning in 1979, has been expanded. A total of 17.6 miles were added to the original 108 miles; construction was completed in 1990.

San Diego is the terminus of the Santa Fe Railway's main line from Los Angeles. Amtrak passenger service is available at San Diego, with stops at Solana Beach and Oceanside in the North County.

San Diego's harbor is one of the world's largest natural harbors. The Port of San Diego is administered by the San Diego Unified Port District, which includes the cities of San Diego, National City, Chula Vista, Imperial Beach and Coronado.

APPENDIX B

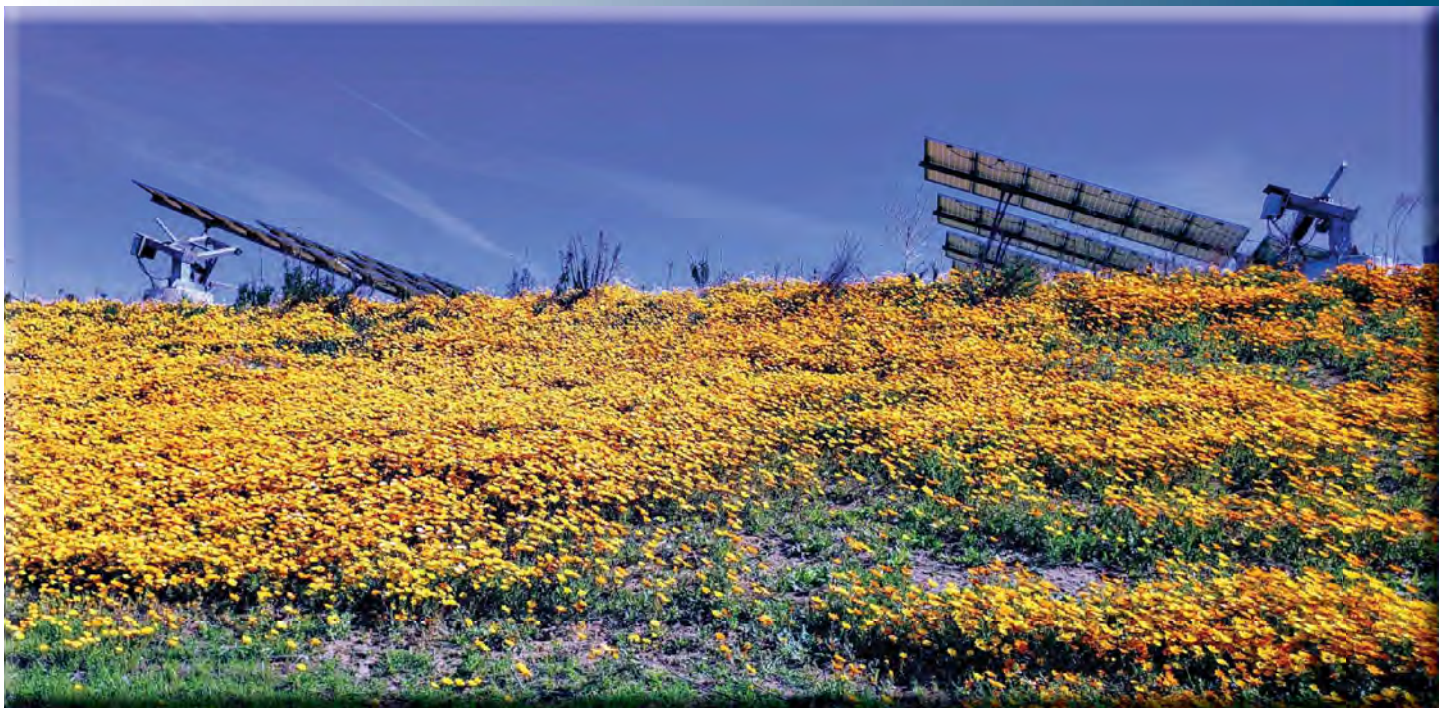
COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDING JUNE 30, 2020

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Fallbrook Public Utility District

A Special District in the State of California



**Comprehensive Annual Financial Report
For the Fiscal Year Ending June 30, 2020**

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COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal Year ending June 30, 2020

Current Board of Directors:

District #1 - Dave Baxter

District #2 - Ken Endter, President

District #3 - Jennifer DeMeo, Vice-President

District #4 - Don McDougal

District #5 - Charley Wolk

Prepared by District Management:

General Manager - Jack Bebee

Assistant General Manager/CFO - David Shank

Acknowledgment: District Management would like to thank Jodi Brown, Kelly Laughlin, Mick Cothran, Joye Johnson, Annalece Bokma, Caroline Wilson and Veronica Tamzil for their support in preparing this document.

Fallbrook Public Utility District
990 East Mission Road
Fallbrook, CA 92028
(760) 728-1125
www.fpud.com

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INTRODUCTORY SECTION



November 23, 2020

Board of Directors

Fallbrook Public Utility District

990 East Mission Road

Fallbrook, California 92028

990 East Mission Road
Fallbrook, California
92028-2232
www.fpud.com
(760) 728-1125

Board of Directors

Dave Baxter
Division 1

Ken Endter
Division 2

Jennifer DeMeo
Division 3

Don McDougal
Division 4

Charley Wolk
Division 5

Staff

Jack Bebee
General Manager

David Shank
*Assistant General Manager/
Chief Financial Officer*

Lauren Eckert
*Executive Assistant/
Board Secretary*

General Counsel

Paula de Sousa
Best Best & Krieger

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) for the Fallbrook Public Utility District (District) for the fiscal year ended June 30, 2020. The purpose of this report is to provide the Board, the public, and other interested parties, with reliable and transparent financial information about the District.

The CAFR is being produced as part of management's efforts to enhance the District's fiscal transparency and to support a better understanding of the District's financial operations. Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

CliftonLarsonAllen, LLP, Certified Public Accountants, have issued an unmodified opinion on the Fallbrook Public Utility District's financial statements for the year ended June 30, 2020. The independent auditors' report is located at the front of the financial section of this report.

Management's Discussion and Analysis (MD&A) immediately follows the independent auditors' report in the Financial Section and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it. Following the MD&A are the basic financial statements, notes to the statements, and an unaudited section of statistical information.

This report has been prepared using the financial reporting model recommended in the Government Accounting Standards Board's (GASB) Statement 34. The GASB requires proprietary fund governments to use the full accrual basis of accounting. The accompanying statements have been prepared using the full accrual basis.

District Profile

Fallbrook is an unincorporated community in San Diego County. The first permanent recorded settlement in Fallbrook was in 1869, in the east area of the District, which later became Live Oak County Park. While agriculture has always played a major role in the community, the first plantings were olives and citrus. These crops were replaced in the 1920's by avocados and it wasn't long before Fallbrook became generally recognized as the "Avocado Capital of the World."

Fallbrook Public Utility District (District) was incorporated on June 5, 1922 to serve water from local area wells along the San Luis Rey River. Soon after it was established, the District began to grow. Annexations into the District have expanded the service area from 500 acres to 28,000 acres (44 square miles). To meet the growing demand for water, additional ground water supplies were developed along both the San Luis Rey and Santa Margarita rivers.

The District became a member of the San Diego County Water Authority (SDCWA) at its formation on June 9, 1944, and thus was eligible to receive a portion of Colorado River water that would be diverted by the Metropolitan Water District of Southern California (MWD). When Colorado River water became available in 1948, consumption within the District gradually increased to approximately 10,000 acre-feet per year by 1959. Then in 1978, MWD augmented its supply system with water from the California State Water Project and began delivering water from both systems to San Diego County. Today, the SDCWA provides virtually all of the District's potable water.

The District provides residents, businesses and agricultural customers with full-service water, wastewater and recycled water services.

Water System

The District imports 99% of its water from the SDCWA with the remaining 1% coming from a local well. The District has 4 connections to the imported water system, three of the four are directly connected to MWD owned pipelines and the fourth, which is currently not in use, is connected to SDCWA's pipeline. The District's water distribution system is comprised of 270 miles of pipeline, 6,800 valves, an ultraviolet disinfection water treatment plant, nine steel reservoirs, a 300-million-gallon treated water reservoir, five pump stations and plans for a groundwater treatment plant. District staff operate the system, and conduct all system maintenance and repairs. The District is in the middle of an Advanced Metering Infrastructure (AMI) system upgrade that will enable real-time meter reading and provide customers with real-time water use.

The District also recently finalized an agreement with U.S. Marine Corps Base Camp Pendleton to share local water in the Santa Margarita River, of the Santa Margarita River Conjunctive Use Project (SMRCUP). The SMRCUP was originally projected to provide a long-term average annual of 3,100 acre-feet per year to the District's ratepayers based on an assessment of available supplies and demands for both the District and Camp Pendleton. The District's demands were also originally projected to be approximately 9,500 acre-feet per year so the project was projected to provide roughly 30% of the District's demands. Based on demand reductions from Camp Pendleton the available supplies from the SMRCUP project has increased to approximately 4,300 acre-feet per year of average annual water supplies. In addition, the District's long-term demand projections have decreased to roughly 8,100 acre-feet per year, so the long term expected supply percentage is now projected to be just over half of the District's total demands. Construction of a bi-directional pipeline and groundwater treatment plant began construction in the Fall of 2019.

The District's five-year average annual water sales is 8,263 acre-feet. Residential and commercial customers represent 64% of sales, and agricultural customers make up the remaining 36%. The District's historic sales trend is down due to improved water efficiency for both residential and commercial indoor and outdoor use, combined with sharp decreases in agricultural water demands. The decrease in agricultural water demands is being driven by the economics of agriculture production and the fact that high wholesale water costs make only limited crops profitable. The District's agricultural water sales have gone from 7,000 acre-feet in Fiscal Year 2008 to 2,350 in Fiscal Year 2020 or down 66%.

Wastewater System

The District's wastewater system is comprised of 78 miles of buried sewer lines and force mains, a 2.7 million gallon per day water reclamation plant, a 1-megawatt solar facility and a 23-mile ocean outfall line.

In an effort to go green, and to save money by reducing hauling and disposal costs of sewage sludge, the District began recycling its sewage sludge in 2008. A state-of-the-art thermal dryer heats the sludge to extremely high temperatures, killing all harmful pathogens. The end product is a sterile fertilizer that can be safely returned to the soil and is classified as a Class A soil amendment. Instead of paying to haul sewage sludge to a landfill, the fertilizer is sold to commercial growers.

The environmentally conscious decision to turn sludge into fertilizer came about as the cost of trucking the sludge out of the county had begun to skyrocket. The District was spending \$150,000 per year to haul its sludge to Riverside County, but that location was set to close and the nearest site was Kern County or out of state. This technology was cutting edge in 2008 and remains so today, reducing the District's environmental footprint, and reducing waste and saving money, all while meeting California's strict emissions standards.

Recycled Water System

The District's recycled water system includes 10.5 miles of buried pipe. Currently the District has 29 recycled water customers, and delivers an average of 0.5 million gallons per day to them. The District provides recycled water for nurseries, sports fields, home owners' associations, Fallbrook High School, street medians, and for freeway irrigation. In 2015, the District completed a \$27 million expansion and upgrade to the water reclamation plant to improve reliability of operation and provide storage for recycled water. The project was completed ahead of schedule and under budget.

To help new users tap into the expanding recycled water system, the District secured funding from the Department of Water Resources through the Prop. 84 grant program. In 2014, the District held a workshop to assist growers with planning, getting permits, purchasing new equipment, and receiving grant funds. Assisting growers through the entire process has helped bring new recycled customers online. The project included expanding the recycled water distribution system in order to add new large water users.

The District has recently applied for grant funding to explore development of a joint Indirect Potable Reuse Project with Camp Pendleton Marine Corps Base. The District is in the process of securing grant funding to help off-set the cost of the project feasibility studies.

Governance and Organizational Structure

The District's Board is made up of five community members who serve overlapping four-year terms. In March 2016, the Board unanimously approved a resolution to change the method of electing board members to "election by district" and approved a map identifying five territorial units within the District. Each director, therefore, is elected by the registered voters of the sub-district he or she resides in, within the District's service area. To run for office, a candidate must live in the area he or she is running to represent. Prior to 2016, directors would win a seat on the board by being the top vote-getters, regardless of where they lived within the District.

Elected District Officials (As of 06/30/2020):

District #1 - Dave Baxter

District #2 - Ken Endter, President

District #3 - Jennifer DeMeo, Vice-President

District #4 - Don McDougal

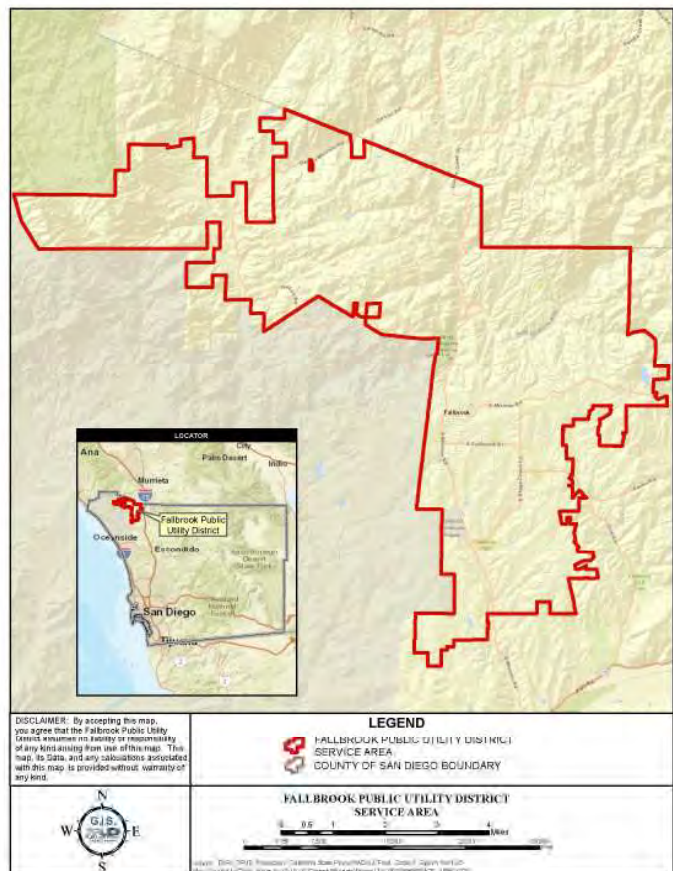
District #5 - Charley Wolk

Service Area and Local Economy

San Diego County is the second-most populous county in the state and the fifth-most populous in the United States. The District is located in the north-east region of the county and is rural in character. The District's service area and pipeline is shown in the accompanying maps. The District is bordered to the west by the Naval Weapons Station and U.S. Marine Corps Base Camp Pendleton, making the District's service area a bedroom community for Camp Pendleton's active military and civilian-service workers. The service area's 2018 population is estimated to be 33,021 with 11,289 households. Fallbrook's population has remained relatively unchanged over the past several years.

The median household income in Fallbrook was \$60,223, which is less than the state median of \$71,228 and slightly higher than the national average of \$60,293. Being only slightly higher than the national average is noteworthy since California is one of the most expensive states to live in.

The San Diego Association of Governments (SANDAG) projects that the County's population will approach 4.1 million residents in 2050, up from 3.4 million in 2020. The District's 2050 housing density is expected to increase slightly as housing demands increase. Employment is also expected to slightly increase by 2050.



Financial Policies

The District maintains certain policies that govern aspects of the District's financial management. The District's maintains the following policies:

- Debt Management Policy – Defines the District's debt management.
- Investment Policy – Establishes permitted investments in compliance with State Code.
- Fund Balance/Reserve Policies – Set target balances for reserves and working capital.
- Capitalization Policy – Establishes the parameters for defining an operating or capital expenditure.

These policies can be found on the District's website as standalone documents or as part of the District's Administrative Code.

Long-Range Planning

The District engages in a wide range of long range planning activities. In 2017, the District completed a comprehensive 10-year financial plan. As part of the financial plan, a Capital Improvement Plan was developed for water, recycled water and wastewater services. In addition, the District also restructured its rates and charges to better align them with the cost of service. Other planning activities include establishing and funding a 115 Trust to offset the District's pension and Other Post Employment Benefits (OPEB) liabilities. On June 30, 2020, the trust held \$7.9 million in assets to offset in District's OPEB and Pension liabilities.

In 2018, the District adopted a new Mission Statement to ensure the District's activities are aligned with the stakeholder interests. To benefit the community of Fallbrook by providing efficient and reliable services the District has identified the following long-range strategic focus areas.

#1 Strategic Focus Area | Water Supply

Need: *The District is almost 100% reliant on imported water purchased from the SDCWA, and has little control over the cost of this water. While our water is reliable due to regional investments in supply and storage, this has also resulted in the cost of water increasing significantly.*

Goal: Provide a reliable, cost-effective water supply through implementation of local water supply projects and securing the most cost effective source of imported water.

Strategy: Maximize available local water resources through development of our Santa Margarita River water rights settlement, which will provide low-cost water from the Santa Margarita River and resolve over 60 years of water rights litigation between the United States Government and the District. Evaluate further expansion of recycled water supplies, which provide a local, cost-effective drought-proof supply.

#2 Strategic Focus Area | Infrastructure

Need: *The District was formed in 1922 and has aging infrastructure throughout its service area. Over the last few years, pipe failures have caused increased service disruptions and property damage. If not addressed, these problems will increase significantly as the existing infrastructure reaches the end of its useful life.*

Goal: Maintain reliable infrastructure to our customers in the most cost-effective manner.

Strategy: Continue implementation of an asset-management program to improve system reliability by replacing existing aging infrastructure before its failure in an effort to avoid service disruptions and property damage.

#3 Strategic Focus Area | Efficiency

Need: *While the District has been able to maintain reliable service with limited resources, additional legal and environmental requirements along with rising employee costs require the District to do more with less to help control water and wastewater rates.*

Goal: Create a District culture of continuous improvement through the implementation of systems, processes and goals for all aspects of the organization.

Strategy: Continue taking incremental steps toward developing an organization that is a model in the industry for operational practices and efficiency, and one that is looked to as an industry leader for a smaller utility. Collaborate with other agencies locally and nationally to implement best practices in the industry.

#4 Strategic Focus Area | Community

Need: *The District was formed by the community as a local resource, but the need to increase rates for long-term fiscal sustainability and to address past under-investments in infrastructure negatively affects our customers' public opinion of the District.*

Goal: Improve experience for our customers to help provide a positive impact on the community we serve.

Strategy: Improve messaging and District approach, from field staff to management, to make sure we are approaching our activities with a focus on the customer's perspective. Establish programs that help invest in our community.

#5 Strategic Focus Area | Workforce

Need: *Approximately 40% of our staff are currently eligible or within five years of being eligible for retirement. Recruiting is challenging for qualified replacements with necessary knowledge in water and wastewater operations, heavy construction, finance, and engineering.*

Goal: Develop a resilient organization so that key positions can be filled internally with capable staff with proper training and education.

Strategy: Create an organization where many key positions are developed internally and a formal



program exists to identify staff with management potential and provide necessary training. Establish a work environment and reputation in the industry that draws qualified candidates with external recruitments.

Major Initiatives

Overcoming Challenges

This year has brought unprecedented challenges to the District and the World. The District's ability to adapt business practices to effectively manage the changes in operations required by the pandemic speak directly to management's recent efforts to both enhance and update the District's operations. The new phone system allowed Customer Service to receive calls like normal with staff working remotely. Remote access to the billing and water use information allowed them to answer customer questions. The payment options like PayNearMe and credit cards recently implemented provide customers more payment options. This ensured cash and other payments could be made even with the offices closed. Dedicated operators ensured uninterrupted service.

Water Affordability

The District has been faced in the past with escalating wholesale water costs driven by major infrastructure investments by the San Diego County Water Authority (SDCWA) in supply reliability. The SDCWA water purchase costs represent over 50% of the District's water enterprise operating costs. With SDCWA facing operational inefficiencies that result from declining water demands and considering the construction of a more than \$4 billion dollar pipeline to the All-American Canal, the District is facing significant water cost increases from SDCWA. To address this, the District has initiated a process to change its water wholesaler to Eastern Municipal Water District (EMWD). This change would reduce the District's cost of water by approximately 30% and not impact water reliability. The significant cost savings that would result from this change would help make the District's water more affordable for the community and help revitalize the region's agricultural industry.

Santa Margarita River Conjunctive Use Project

Development of a new groundwater treatment plant to treat water delivered by Camp Pendleton per the executed settlement agreement of US vs FPUD. Projected to provide on average 3,100 acre-feet per year of local water. The project construction is expected to take 24 months. Construction began in September 2019 and is expected to be completed in Fiscal Year ending June 30, 2022.

In addition to the regional investments in San Diego County water supplies, there is a significant proposed statewide water project to fix the Bay-Delta State Water Project, also known as the WaterFix, which delivers our key water supplies from Northern California. While the impact of the WaterFix on the cost of water is not known, the original cost in 2017 was expected to be just over \$16 billion. Since this cost is to be recovered on water rates, the project will cause an ongoing increase to wholesale water costs. With the additional increases in water costs due to WaterFix on the horizon, local water supply development, which will reduce our dependence on costly imported water, is another way to mitigate continued wholesale water rate increases.

The District recently settled over 66 years of water rights litigation with Camp Pendleton Marine Corps Base, which had been a hurdle to the District in securing a local water supply. This settlement allows the District to move forward on the Santa Margarita River Conjunctive Use Project (SMRCUP), which will make local supply for the District a reality and will provide District ratepayers long-term rate relief from increasing wholesale water costs. This project is under construction and is scheduled to begin producing water in fiscal year ending June 30, 2022. This project will be one of the largest capital investments made by the District over the next decade. The District has secured local supply development incentives from the Metropolitan Water District that will offset some of the projects operating costs and make the supply even more cost effective.

Asset Management

The District has implemented an asset management program that balances the cost of infrastructure rehabilitation with the cost of emergency repairs. Our critical buried infrastructure, such as water mains, have an average service life of 80 to 100 years. In the past, the District's replacement cycle for buried assets was on a replacement cycle of 400 years. With this replacement cycle, the frequency of asset failures was expected to increase significantly over the near-term resulting in an increasing number of emergency water disruptions and property damage claims. In response, the District has proactively managed the renewal and rehabilitation program and is on a path to drive the system service life down from 400 years to 100 years. The recent decreased frequency of asset failures shows that some progress on this program has made, but this is a long-term program to meet the future replacement needs.

Continuous Improvement

The District is focused on improving the level of service to its customers in the most cost-effective manner and to continuously evaluate and modify operational practices to achieve this goal. This document is an example of the District's commitment to continuous improvement and improved financial management and transparency. The District's organizational chart is shown on the page 9.

Acknowledgments

Management would like to thank the Board of Directors for their leadership and vision guiding the implementation of the highest standards of financial management and securing District's long-term financial sustainability.



Jack Bebee
General Manager

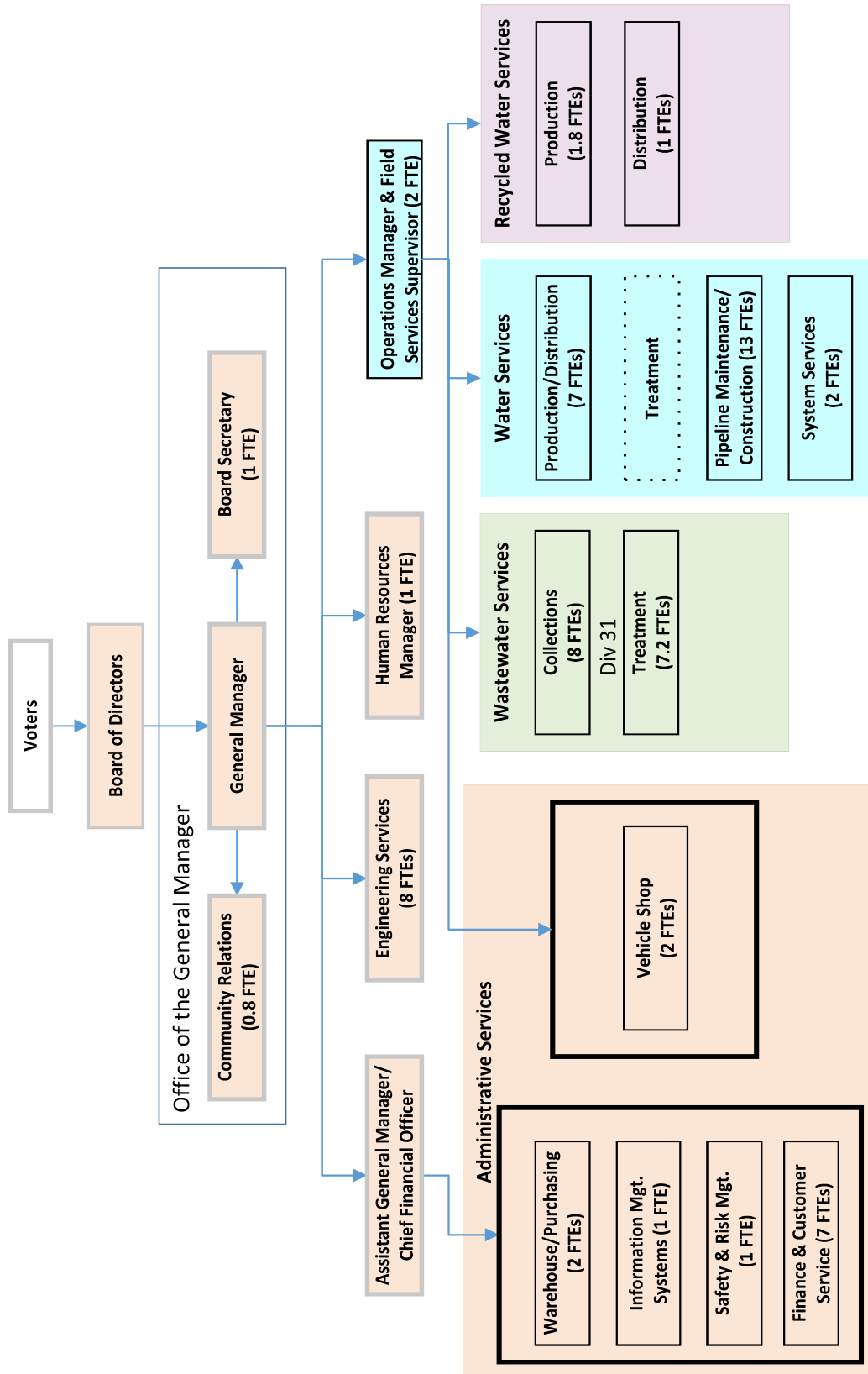


David Shank
Assistant General Manager/CFO



Fiscal Year Organizational Structure (Total FTE 67.8)

Fiscal Year 2019-2020 Organizational Structure Total Requested Regular FTE=67.8



FTE = Full-Time Equivalent

Future Division excluded from FTE count

Certificate of Achievement for Excellence in Financial Reporting



Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

**Fallbrook Public Utility District
California**

For its Comprehensive Annual
Financial Report
For the Fiscal Year Ended

June 30, 2019

Executive Director/CEO

FINANCIAL SECTION



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2965 Roosevelt Street
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Carlsbad, CA 92008
760-729-2343 | fax 760-729-2234
CLAconnect.com

INDEPENDENT AUDITORS' REPORT

Board of Directors
Fallbrook Public Utility District
Fallbrook, California

We have audited the accompanying financial statements of the major fund and the aggregate remaining fund information of the Fallbrook Public Utility District (District) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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



Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fallbrook Public Utility District as of June 30, 2020, and the respective changes in financial position and, when applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in notes 3 and 10 to the financial statements, the District restated net position at June 30, 2019 in the amount of \$1,139,122 to correct an overstatement of accumulated depreciation in prior years. Our opinions are not modified with respect to these matters.

Other Matters*Prior-Year Comparative Information*

The 2019 financial statements were audited by WNDE, whose practice became part of CliftonLarsonAllen LLP as of November 1, 2020, and whose report dated November 25, 2019, expressed unmodified opinions on those respective financial statements of the major fund and the aggregate remaining fund information from which the prior year summarized financial information was derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of the Proportionate Share of the Net Pension Liability - Defined Benefit Pension Plans, Schedule of Contributions - Defined Benefit Pension Plans, Schedule of Changes in the Net OPEB Liability and Related Ratios, and Schedule of Contributions - OPEB, identified as Required Supplementary Information (RSI) in the accompanying Table of Contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the RSI because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Introductory Section, the Schedule of Operating Income and Expenses, and Statistical Section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Operating Income and Expenses is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Operating Income and Expenses is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Introductory Section and Statistical Section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Governmental Auditing Standards*, we have also issued our report dated November 23, 2020, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the District's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Carlsbad, California
November 23, 2020

Management's Discussion and Analysis

This section of the Fallbrook Public Utility District's (District) annual financial report provides management's summary and analysis of the District's financial performance for fiscal year ending June 30, 2020. Management's Discussion and Analysis (MD&A) are broken into the following sections:

- Financial Statement Overview
- Financial Highlights & Analysis
- Capital Assets
- Debt Management

Interested parties are encouraged to read this section of the District's annual financial report in conjunction with the Letter of Transmittal and the detailed financial statements included in this report.

Financial Statement Overview

The financial statements report information about the District's financial position and result of operations using the accrual basis of accounting, similar to methods used by private sector companies. The statements also present changes in cash balances, and information about both short and long-term activities. This section of the annual report contains three components: Management's Discussion and Analysis, the Basic Financial Statements, and the Notes to the Financial Statements.

The Basic Financial Statements include the following:

- The Statement of Net Position present financial information on all of the District's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.
- The Statement of Revenues, Expenses and Changes in Net Position accounts for the District's activities during the last year. It provides the basis for measuring the relative success in recovering operational costs.
- The Statement of Cash Flows report the District's cash receipts and disbursements during the period, classified into operating, financing, and investing categories.
- The Notes to the Financial Statements provide additional information and present material disclosures required by generally accepted accounting principles that are not otherwise visible in the financial statements. The notes immediately follow the statements.

Financial Highlights

This year the District's net financial position increased 1.5% from the June 30, 2019 restated balance of \$97,207,549 to a June 30, 2020 balance of \$98,704,754. The District's total assets increased to \$189,612,774, which is a 30.7% increase from last year. The increase in District's assets is being driven by the construction of a water treatment plant, which is part of the District's Santa Margarita Conjunctive Use Project (SMRCUP). The treatment plant construction is being funded by a State Revolving Fund (SRF) Loan. Liabilities increased to \$93,128,287 by 81.7% from year ending June 30, 2019 due to the new SRF Loan funding the SMRCUP water treatment plant and construction related payments. Of the District's assets, 74.4% are related to infrastructure, which is the largest class of assets.

The District's operating loss decreased from \$4,763,867 in fiscal year ending June 30, 2019 to \$4,303,252 in fiscal year ending June 30, 2020. Overall the District's operating revenues increased 7.4% or from \$26,944,550 to \$28,931,007 in fiscal years ending June 30, 2019 and 2020, respectively. After net non-operating revenues and capital contributions the District's fiscal year ending June 30, 2020 change in net position was \$1,497,205. During the past year, the District made contributions to the Pension and OPEB 115 Trust that when combined with investment earnings bring the trust balance from \$7,108,112 fiscal year ending June 30, 2019 to \$7,852,397 fiscal year ending June 30, 2020.

Condensed Statements of Net Position

	For the Year Ended June 30, 2020	For the Year Ended June 30, 2019	For the Year Ended June 30, 2018
Assets			
Current Assets	\$ 37,944,043	\$ 21,737,022	\$ 17,589,075
OPEB and Restricted Assets	10,556,480	9,752,965	4,968,360
Capital Assets, net	141,112,251	113,599,777	114,647,596
Total Assets	189,612,774	145,089,764	137,205,031
Deferred Outflows of Resources	3,235,682	3,419,768	4,014,167
Liabilities			
Current liabilities	21,205,499	5,825,259	6,679,433
Noncurrent liabilities	71,922,788	45,425,373	47,605,222
Total Liabilities	93,128,287	51,250,632	54,284,655
Deferred Inflows of Resources	1,015,415	1,190,472	851,236
Net Position			
Net Investment in Capital Assets	82,199,752	81,264,522	79,333,568
Restricted	10,188,202	9,477,694	4,711,487
Unrestricted	6,316,800	6,465,333	2,038,252
Total Net Position	\$ 98,704,754	\$ 97,207,549	\$ 86,083,307

Financial Analysis

The Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position report information about the District's enterprise fund activities in a way that will help answer questions as to whether the District, as a whole, is better or worse off as a result of this year's activities. These two statements report the net position of the District and changes in it. One can think of the District's net position as the difference between assets and deferred outflows of resources (what is owned) and liabilities and deferred inflows of resources (what is owed) and is one way to measure its financial health or financial position.

Fiscal year 2020 compared to Fiscal Year 2019

The largest and most significant portion of the District's net position is its investment in capital assets, which are used to provide services to its customers. Water assets include the pipeline distribution system, the dam at the Red Mountain reservoir and equipment and structures. Wastewater assets include the sewage collections system, wastewater treatment plant, solar generating plant, equipment and ownership of the Oceanside Ocean Outfall. Capital assets increased to \$141,112,251 in fiscal year ending June 30, 2020. In fiscal year ending June 30, 2020, the District spent \$27,331,718 million on the construction of a \$62.9 million dollar water treatment plant. This investment in District assets is driving the increase in capital assets.

Current assets increased by \$16,207,021 million from fiscal year ending June 30, 2019. The increase is primarily driven by \$15,412,415 in loan proceeds receivable, which are pending SMRCUP water treatment plant project reimbursements from the SRF Loan program. The loan proceeds receivable is included in Other Receivables in the financial statements. At year-end, the trust offsetting the District's OPEB and pension liabilities held \$7,852,396, \$1,040,486 for OPEB and \$6,811,910, for pensions. The OPEB assets are reported in this report as a Fiduciary Fund in compliance with GASB 75.

Net capital assets increased \$27,512,474 in fiscal year ending June 30, 2020, as restated. District wide depreciation in fiscal year ending June 30, 2020 was \$6,637,996. The increase in net capital assets indicates that the District's capital investments in system assets during fiscal year ending June 30, 2020 greatly outpaced the rate of asset depreciation.

Current liabilities increased by \$15,380,240 from fiscal year ending June 30, 2019. The driver behind the increase in current liabilities was corresponding increase in accounts payable, which is related to SMRCUP water treatment plant construction related outflows.

The District's total net position increased by \$1,497,205 primarily attributable to the \$6,369,624 in nonoperating revenue, which is predominantly made up of property taxes and capital improvement charges, and investment income. These along with offsetting nonoperating expenses of \$941,674, compensated for the operating loss of \$4,303,252.

Fiscal year 2019 compared to Fiscal Year 2018

The largest and most significant portion of the District's net position is its investment in capital assets, which are used to provide services to its customers. Water assets include the pipeline distribution system, the dam at the Red Mountain reservoir and equipment and structures. Wastewater assets include the sewage collections system, wastewater treatment plant, solar generating plant, equipment and ownership of the Oceanside Ocean Outfall. Capital assets decreased to \$113,599,777 in fiscal year ending June 30, 2019.

Current assets increased by \$4,147,947 from fiscal year ending June 30, 2018. The increase is primarily driven by the sale of the District's Santa Margarita River properties for \$10 million. At year-end, the trust offsetting the District's OPEB and pension liabilities held \$7,108,112, \$1,006,649 for OPEB and \$6,101,463 for pensions. The OPEB assets are reported in this report as a Fiduciary Fund in compliance with GASB 75.

Net capital assets remained relatively flat with a decrease of \$1,047,819 in fiscal year ending June 30, 2019. The decrease was driven by the sale of the Santa Margarita River properties with a cost basis of \$667,000. District wide depreciation in fiscal year ending June 30, 2019 was \$6,158,589. The slight decrease in net capital assets indicates that the District's capital investments in fiscal year ending June 30, 2019 were slightly outpaced by the rate of asset depreciation.

Current liabilities decrease by \$854,174 from fiscal year ending June 30, 2018. The driver behind the decrease in current liabilities was corresponding decrease in accounts payable, which is related to construction related outflows.

The District's total net position increased by \$9,985,121 primarily attributable to the \$9,338,297 net gain on disposal of capital assets. Other nonoperating revenue, which is predominantly made up of property taxes and capital improvement charges, and investment income.

These along with offsetting nonoperating expenses of \$909,966, compensated for the operating loss of \$4,763,867.

Condensed Statements of Revenues, Expenses and Changes in Net Position

	For the Year Ended June 30, 2020	For the Year Ended June 30, 2019	For the Year Ended June 30, 2018
Operating revenues	\$ 28,931,007	\$ 26,944,550	\$ 29,882,022
Operating expenses	33,234,259	31,708,417	33,319,799
Operating loss	(4,303,252)	(4,763,867)	(3,437,777)
Non-Operating revenue, net	5,427,950	14,675,198	4,211,886
Change in net position before capital contributions	1,124,698	9,911,331	774,109
Capital Contributions	372,507	73,789	140,761
Change in net position	1,497,205	9,985,120	914,870
Net Position - beginning	97,207,549	86,083,307	81,682,918
Prior Period Adjustments	-	1,139,122	3,485,519
Net position - end of year	\$ 98,704,754	\$ 97,207,549	\$ 86,083,307

Fiscal year 2020 compared to Fiscal Year 2019

Fiscal year ending June 30, 2020 water sales revenues were up 7.1% or \$1,458,446 from fiscal year ending June 30, 2019 due to increased rates. Wastewater revenues were up 8.5% from fiscal year ending June 30, 2019 levels due to rate increases and higher billable flows. While the Statements of Net Position shows the District's overall financial position, the Statements of Revenues, Expenses and Changes in Net Position provides answers as to the nature and source of the changes in the District's fiscal year ending June 30, 2020 net position. The District's restated net position increased by \$2,636,327 during fiscal year ending June 30, 2020.

Operating revenue increased \$1,986,457 due to rate increases and higher billable flows. Recycled water sales were flat at 560 AF as compared to 562 AF in fiscal year ending June 30, 2019. Wastewater revenues increased by \$467,648 versus fiscal year ending June 30, 2019. Operating revenues included potable water and recycled sales, monthly District water and wastewater operations charges and pass-through charges from the SDCWA.

Operating expenses increased by \$1,525,842 versus fiscal year ending June 30, 2019. The increase in operating expense was driven by a \$718,419 increase in water operations and a \$418,655 increase in wastewater operations from fiscal year ending June 30, 2019. Depreciation expense increased by \$479,407 from fiscal year ending June 30, 2019 while other operating costs increased by \$1,046,435. The operating increase also included costs associated with changes in the actuarial valuation of the District's pension obligation, which like depreciation, is the systematic allocation of the cost over a specified time horizon.

The District's operating loss of \$4,303,252 when netted against combined nonoperating revenues and expenses of \$5,427,950 results in a \$1,124,698 increase in net position before capital contributions. The District's nonoperating revenues come from six primary sources, property taxes in the amount of \$2,205,975, water and wastewater capital improvement charges in the amount of \$2,559,135, investment income in the amount of \$920,135, water availability charges in the amount of \$204,418, connection fees in the amount of \$107,107 and the Federal Interest Rates Subsidy Payments of \$123,762.

Fiscal year 2019 compared to Fiscal Year 2018

Fiscal year ending June 30, 2019 water revenues were down 12.1% or \$2,829,984 from fiscal year ending June 30, 2018. Wastewater revenues were up 4.2% from fiscal year ending June 30, 2018 levels due to rate increases and higher billable flows. While the Statements of Net Position shows the District's overall financial position, the Statements of Revenues, Expenses and Changes in Net Position provides answers as to the nature and source of the changes in the District's fiscal year ending June 30, 2019 net position. The District's net position increased by \$9,985,121 during fiscal year ending June 30, 2019.

Operating revenue decreased \$2,937,472 primarily due to water sales of 7,496 AF in fiscal year ending June 30, 2019 compared to 9,313 during fiscal year ending June 30, 2018. Recycled water sales were 562 AF, which was down from 704 AF in fiscal year ending June 30, 2018. Wastewater revenues increased by \$220,757 versus fiscal year ending June 30, 2018. Operating revenues included potable water and recycled sales, monthly District water and wastewater operations charges and pass-through charges from the SDCWA.

Operating expenses decreased by \$1,611,382 versus fiscal year ending June 30, 2018. The decrease in operating expense was driven by a \$1,802,434 decrease in the cost of water from fiscal year ending June 30, 2018. Depreciation expense increased by \$464,866 from fiscal year ending June 30, 2018 while other operating costs decreased by \$273,814. The operating expenses decrease also included costs associated with changes in the actuarial valuation of the District's pension obligation, which like depreciation, is the systematic allocation of the cost over a specified time horizon.

The District's operating loss of \$4,763,867 when netted against combined nonoperating revenues and expenses of \$14,675,198 results in a \$9,911,331 increase in net position before capital contributions. This is a \$10,463,312 increase from fiscal year ending June 30, 2018. The majority of revenues came from the District's sale of the Santa Margarita River properties which resulted in a net gain of \$9,308,952. The District's other nonoperating revenues come from six primary sources, property taxes in the amount of \$2,106,034, water and wastewater capital improvement charges in the amount of \$2,505,876, investment income of \$915,275, water availability charges in the amount of \$204,359, lease revenues in the amount of \$199,433 and connection fees of \$180,966.

Supplemental information for each of the three operations divisions can be found on page 63 of this report.

Capital Assets

The District's has implemented an asset management program to improve the system reliability and reduce the number of unscheduled repairs. A critical component of the asset management program is the District's pipeline and valve replacement program. In fiscal year ending June 30, 2020, the District replaced 16,042 feet of pipe and 427 valves. The District's pipeline and valve replacement program's goal is to reduce the replacement cycle of pipelines to 100 years from the previous 400 year replacement cycle. Last year the District completed and capitalized its Santa Margarita Water Rights capital project. This multi-decade project resulted in perpetual rights to Santa Margarita River water. This local supply will provide water to future generations to come. This year, the District began construction of the SMRCUP water treatment plant, which when completed will provide the District's ratepayers with a local water supply, which is not only reliable but also affordable. The water treatment plant will treat the District's share of the Santa Margarita River water.

June 30, 2020, the District has the following commitments with respect to unfinished capital projects:

Capital Projects	Remaining Construction Commitment	Expected Completion Date
Overland Trail Lift Station Rehabilitation	\$ 2,220,000	2/1/2021
Santa Margarita Conjunctive Use Project (SMRCUP)	31,900,000	12/1/2021
Winterhaven Pipeline Replacement	250,000	9/1/2021
Water Supply Reliability Project	350,000	10/1/2021
EAM Implementation	35,000	6/1/2021

Additional information on the District's capital asset activity can be found at Note 3 of the Notes to the Basic Financial Statements.

Debt Administration

At June 30, 2020, the District had \$58.9 million of long-term debt outstanding. \$3.1 million of this debt is attributable to the wastewater Qualified Energy Conservation Bonds (QECCB) solar loan, which qualifies for Federal Interest Rate Subsidy payments. The loan was originally for \$7.2 million. An additional \$3.8 million of indebtedness is attributable to the Red Mountain Filtration Plant SRF loan, which was originally for \$6.16 million. \$24.7 million of indebtedness is attributable to the Wastewater Treatment Plant SRF loan, which was originally for \$29.6 million. Of the approved \$62.9 SRF loan for the SMRCUP water treatment plant, only \$27.3 million had been drawn at the end of fiscal year ending June 30, 2020. Scheduled debt service payments (principal and interest) on this loan commence once the project is completed, which is anticipated to occur in the winter of 2022. During construction, the District only pays interest on the balance of loan proceeds received. During the year ending June 30, 2020 \$1.9 million of principal payments were made on the District's outstanding long-term obligations.

More detailed information about the District's debt structure is found in Note 4 to the Basic Financial Statements

FALLBROOK PUBLIC UTILITY DISTRICT

STATEMENT OF NET POSITION
June 30, 2020
(with prior year data for comparison only)

	2020	2019
ASSETS		
Current Assets		
Cash and cash equivalents (Note 2)	\$ 8,137,414	\$ 3,997,334
Investments (Note 2)	7,831,917	11,647,359
Receivables - water sales and services	4,478,619	4,029,630
Accrued interest receivable	64,434	79,724
Property taxes receivable	10,160	12,370
Other receivables (Note 4)	15,519,773	87,217
Inventory (Note 5)	1,845,755	1,839,995
Prepaid expenses and other deposits	55,971	43,393
Restricted Assets		
Cash and cash equivalents	7,496,954	6,693,439
Investments	3,059,526	3,059,526
Total current assets	48,500,523	31,489,987
Noncurrent Assets		
Capital assets (Note 3)		
Capital assets, not being depreciated	42,118,554	14,145,536
Capital assets being depreciated, net	98,993,697	99,454,241
Total capital assets, net	141,112,251	113,599,777
Total noncurrent assets	141,112,251	113,599,777
Total assets	189,612,774	145,089,764
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amounts from Pension (Note 6)	3,004,079	3,197,216
Deferred amounts from OPEB (Note 7)	231,603	222,552
Total Deferred Outflows of Resources	\$ 3,235,682	\$ 3,419,768

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

(continued)

FALLBROOK PUBLIC UTILITY DISTRICT

STATEMENT OF NET POSITION (CONTINUED)
 June 30, 2020
 (with prior year data for comparison only)

	<u>2020</u>	<u>2019</u>
LIABILITIES		
Current liabilities		
Accounts payable	\$ 18,213,752	\$ 2,871,022
Accrued wages	208,653	247,894
Construction and other deposits	14,884	8,908
Accrued interest payable	258,156	217,795
Compensated absences, current portion (Note 1)	560,892	586,045
Current portion of other long-term debt (Note 4)	1,949,162	1,893,596
Total current liabilities	<u>21,205,499</u>	<u>5,825,260</u>
Noncurrent Liabilities		
Health retirement account liability	351,796	258,421
Net OPEB liability (Note 7)	109,213	135,077
Net pension liability (Note 6)	13,629,333	12,541,929
Retention payable	27,771	30,098
Compensated absences, net of current portion (Note 1)	841,338	879,067
Long-term debt - net of current portion (Note 4)	56,963,337	31,580,781
Total Noncurrent Liabilities	<u>71,922,788</u>	<u>45,425,373</u>
Total Liabilities	<u>93,128,287</u>	<u>51,250,633</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred amounts from Pension (Note 6)	915,032	957,275
Deferred amounts from OPEB (Note 7)	100,383	118,346
Deferred revenue	-	114,851
Total Deferred Inflows of Resources	<u>1,015,415</u>	<u>1,190,472</u>
NET POSITION		
Net investment in capital assets	82,199,752	80,125,400
Restricted for:		
1958 Annex projects	1,213,780	1,213,780
Debt service	2,162,512	2,162,451
Pension	6,811,910	6,101,463
Unrestricted	6,316,800	6,465,333
Total Net Position	<u>\$ 98,704,754</u>	<u>\$ 96,068,427</u>

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

FALLBROOK PUBLIC UTILITY DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the year ended June 30, 2020
(with prior year data for comparison only)

	2020	2019
OPERATING REVENUES		
Water	\$ 21,940,234	\$ 20,481,788
Recycled water	1,059,305	998,942
Wastewater	5,931,468	5,463,820
Total operating revenues	28,931,007	26,944,550
OPERATING EXPENSES		
Cost of water	12,663,006	12,650,795
Water operations	7,970,479	7,252,060
Recycled water operations	497,444	600,294
Wastewater operations	5,465,334	5,046,679
Operating expenses before depreciation	26,596,263	25,549,828
Operating income before depreciation	2,334,744	1,394,722
Depreciation	6,637,996	6,158,589
Operating loss	(4,303,252)	(4,763,867)
NONOPERATING REVENUES (EXPENSES)		
Property taxes	2,205,975	2,106,034
Capital improvements charges	2,559,135	2,505,876
Investment income	920,135	915,275
Water availability charges	204,418	204,359
Lease revenue	249,092	199,433
Intergovernmental revenue - federal interest rate subsidy	123,762	134,924
Connection fees	107,107	180,966
Net gain (loss) on disposal of capital assets	(31,450)	9,338,297
Interest expense	(910,224)	(909,966)
Total nonoperating revenues (expenses)	5,427,950	14,675,198
Changes in net position before capital contributions	1,124,698	9,911,331
Capital contributions	372,507	73,789
Change in net position	1,497,205	9,985,120
Net position, beginning of year, as originally stated	96,068,427	86,083,307
Prior period adjustment	1,139,122	-
Net position - beginning of year, as restated	97,207,549	86,083,307
Net position - end of year	\$ 98,704,754	\$ 96,068,427

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

FALLBROOK PUBLIC UTILITY DISTRICT

STATEMENT OF CASH FLOWS
For the year ended June 30, 2020
(with prior year data for comparison only)

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 28,461,877	\$ 26,957,492
Lease revenues collected	249,092	199,433
Payments for water	(12,513,388)	(13,239,336)
Payments for services and supplies	(3,846,281)	(5,099,812)
Payments for employee wages, benefits and related costs	(8,854,503)	(7,046,803)
Net cash provided by operating activities	3,496,797	1,770,974
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property taxes	2,208,185	2,102,847
Net cash provided by noncapital financing activities	2,208,185	2,102,847
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(17,662,519)	(5,977,474)
Proceeds from sales of capital assets	-	9,975,952
Proceeds of Issuance of Debt	11,919,303	-
Principal payments on long-term debt	(1,893,596)	(1,839,651)
Interest paid	(869,863)	(922,536)
Intergovernmental revenue - federal interest rate subsidy	123,762	134,924
Capital improvement charges and connection fees	2,666,242	2,742,322
Water availability charges	204,418	204,359
Net cash provided (used) by capital and related financing activities	(5,512,253)	4,317,896
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(4,536,297)	(5,416,513)
Sales of investments	8,684,567	3,135,714
Interest received	602,596	580,308
Net cash provided (used) by investing activities	4,750,866	(1,700,491)
Net change in cash and cash equivalents	4,943,595	6,491,226
Cash and cash equivalents - beginning	10,690,773	4,199,547
Cash and cash equivalents - ending	\$ 15,634,368	\$ 10,690,773
Financial Statement Presentation		
Cash and cash equivalents	\$ 8,137,414	\$ 3,997,334
Cash and cash equivalents - Restricted Assets	7,496,954	6,693,439
Total Cash and cash equivalents	\$ 15,634,368	\$ 10,690,773

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

(Continued)

FALLBROOK PUBLIC UTILITY DISTRICT

STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended June 30, 2020

(with prior year data for comparison only)

	2020	2019
Reconciliation of operating income (loss) to net cash provided by operating activities		
Operating loss	\$ (4,303,252)	\$ (4,763,867)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation	6,637,996	6,158,589
Lease revenues collected	249,092	199,433
(Increase) Decrease in:		
Receivables	(469,130)	12,942
Inventory	(5,760)	145,478
Prepaid expenses and other deposits	(12,578)	19,207
Deferred outflows of resources	184,086	594,399
Increase (decrease) in:		
Accounts payable	338,608	(722,062)
Accrued wages	(39,241)	(49,918)
HRA liability	93,375	17,607
Net OPEB obligation	(25,864)	(148,692)
Net pension liability	1,087,404	(204,365)
Compensated absences	(62,882)	172,987
Deferred inflows of resources	(60,206)	224,385
Deferred revenue	(114,851)	114,851
Net cash provided by operating activities	<u>\$ 3,496,797</u>	<u>\$ 1,770,974</u>
 Noncash investing and capital and related financing activities		
Change in fair value of investments	\$ 332,828	\$ 334,417
Capital assets contributed	\$ 311,842	\$ 73,789

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

FALLBROOK PUBLIC UTILITY DISTRICT

STATEMENT OF FIDUCIARY NET POSITION - OPEB TRUST FUND

June 30, 2020

(with prior year data for comparison only)

	<u>2020</u>	<u>2019</u>
Assets		
Cash and Cash Equivalents	<u>\$ 1,040,486</u>	<u>\$ 1,006,649</u>
Net Position		
Restricted for other postemployment benefits	<u>\$ 1,040,486</u>	<u>\$ 1,006,649</u>

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

FALLBROOK PUBLIC UTILITY DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - OPEB TRUST FUND

For the year ended June 30, 2020
(with prior year data for comparison only)

	<u>2020</u>	<u>2019</u>
Additions		
Employer contributions	\$ -	\$ -
Investment income	36,239	61,267
Total additions	<u>36,239</u>	<u>61,267</u>
Deductions		
Administration	2,402	2,402
Change in net position	<u>33,837</u>	<u>58,865</u>
Net position - beginning of year	1,006,649	947,784
Net position - end of year	<u><u>\$ 1,040,486</u></u>	<u><u>\$ 1,006,649</u></u>

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

June 30, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Organization and Operations of the District

Fallbrook Public Utility District (District) was incorporated as a political subdivision of the State of California in 1922 and operates under the provisions of the Public Utility District Code as adopted in 1953. The District constructs, operates and maintains facilities to supply water to the town of Fallbrook and the surrounding residential and agricultural areas comprising approximately 27,963 acres, which includes the former De Luz Heights Municipal Water District (annexed in 1990). The District is a member of the San Diego County Water Authority, and as that organization is a member of the Metropolitan Water District of Southern California, the District is entitled to pro rata participation in all water supplies available to those agencies. The District is governed by a Board of Directors consisting of five board members, each of whom is elected to office for a term of four years by registered voters of the District.

In November 1994, the Fallbrook Sanitary District (which is wholly included within the Fallbrook Public Utility District) dissolved that district and was incorporated into the Fallbrook Public Utility District to provide wastewater services in Fallbrook. The provisions of the dissolution and assumption of services established a separate improvement district to identify the tax base and debt obligations of the former Fallbrook Sanitary District.

Under the terms and conditions of the Local Agency Formation Commission (LAFCO), a San Diego County agency that oversees special districts, the debt of the former Fallbrook Sanitary District, now identified as Improvement District S, existing at the time of the merger was paid from taxes and other revenues raised within the Improvement District "S". The debt of the former De Luz Heights Municipal Water District was also paid from revenues and taxes paid in the De Luz area.

b. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Proprietary Fund

The District's activities are reported in an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to business enterprises, where the intent of providing goods and services to the general public on a continuing basis is financed or recovered primarily through user charges.

The basic financial statements are prepared using the *economic resource measurement focus* and the *accrual basis of accounting*. Under the economic resources measurement focus all assets, deferred outflows of resources, liabilities and deferred inflows of resources (whether current or noncurrent) associated with the District's activities are included on the Statement of Net Position. The Statement of Revenues, Expenses, and Changes in Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized when earned while expenses are recognized when the liability is incurred regardless of the timing of cash flow.

The District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services, delivering water, and collecting, treating and disposing of wastewater in connection with the District's principal ongoing operations. The District's principal operating revenues are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Capital contributions are reported as a separate line item in the Statement of Revenues, Expenses, and Changes in Net Position.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**b. Measurement Focus, Basis of Accounting, and Financial Statement Presentation: (Continued)****Fiduciary Fund**

Fiduciary fund financial statements include a statement of fiduciary net position and a statement of changes in fiduciary net position. The District's other post-employment benefit (OPEB) trust fund is accounted for using the economic resources measurement focus and accrual basis of accounting. The OPEB trust fund accounts for the activities of the City's plan for post-retirement medical benefits.

Net Position

The basic financial statements of the Fallbrook Public Utility District have been prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for governmental accounting financial reporting purposes.

Net position of the District is classified into three components: (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position. These classifications are defined as follows:

Net Investment in Capital Assets

This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of notes or borrowings that are attributable to the acquisition of the asset, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets.

Restricted Net Position

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

Unrestricted Net Position

This component of net position consists of net position that does not meet the definition of "net investment in capital assets," or "restricted net position."

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**c. New Accounting Pronouncements:**Current Year Standards:

- GASB 95 – The Governmental Accounting Standards Board issued Statement No. 95, “*Postponement of the Effective Dates of Certain Authority Guidance*” to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic.

Pending Accounting Standards:

GASB has issued the following statements which may impact the District’s financial reporting requirements in the future:

- GASB 84 – In January 2017, the Governmental Accounting Standards Board issued Statement No. 84, “*Fiduciary Activities*”. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.
- GASB 87 – In June 2017, the Governmental Accounting Standards Board issued Statement No. 87, “*Leases*”. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021.
- GASB 92 – In January 2020, the Governmental Accounting Standards Board issued Statement No. 92, “*Omnibus 2020*”. The requirements of this Statement are effective for fiscal years beginning after June 15, 2020.
- GASB 97 – In June 2020, the Governmental Accounting Standards Board issued Statement No. 97, “*Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32.*” The requirements of this Statement are effective for fiscal years beginning after June 15, 2021.

d. Deferred Outflows/Inflows of Resources:

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until that time. The District has the following items that qualify for reporting in this category:

- Deferred outflow related to pensions for employer contributions made after the measurement date of the net pension liability.
- Deferred outflow related to other post-employment benefits for employer contributions made after the measurement date of the net other post-employment benefit liability.
- Deferred outflow related to pensions for differences between expected and actual experiences. This amount is amortized over a closed period equal to the average of the expected remaining services lives of all employees that are provided with pensions through the Plans.
- Deferred outflow related to pensions resulting from the changes in assumptions. These amounts are amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plans.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**d. Deferred Outflows/Inflows of Resources: (continued)**

- Deferred outflow related to other post-employment benefits pensions for differences between expected and actual experiences. This amount is amortized over a closed period equal to the average of the expected remaining services lives of all employees that are provided with pensions through the Plans.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. The District has the following that will qualify for reporting in this category:

- Deferred inflow related to pensions resulting from the difference in projected and actual earnings on investments of the pension plan fiduciary net position. This amount is amortized over five years.
- Deferred inflow related to other post-employment benefits resulting from the difference in projected and actual earnings on investments of the other post-employment benefits plan fiduciary net position. This amount is amortized over five years.
- Deferred inflow related to pensions for differences between expected and actual experiences. This amount is amortized over a closed period equal to the average of the expected remaining services lives of all employees that are provided with pensions through the Plans.
- Deferred inflow related to pensions resulting from the changes in assumptions. This amount is amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plans.
- Deferred inflow related to other post-employment benefits resulting from the changes in assumptions. This amount is amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plans.
- Deferred inflow related to changes in proportion and differences between employer contributions and proportionate share of contributions. This amount is amortized over a closed period equal to the average of the expected remaining services lives of all employees that are provided with pensions through the Plans.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**e. Cash, Cash Equivalents and Investments**Cash and cash equivalents

For purposes of the statement of cash flows, cash and cash equivalents include petty cash, demand deposits with financial institutions, deposits in money market mutual funds (SEC registered), and deposits in external investment pools, and marketable securities that mature within 90 days of purchase. Such marketable securities and deposits in money market funds are carried at fair value. Investment pool deposits are carried at the District's proportionate share of the fair value of each pool's underlying portfolio.

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.

Investment Valuation

Investments are carried at fair value. In the financial statements, changes in fair value that occur during a fiscal year are recognized as *investment income* reported for the fiscal year. *Investment income* includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

f. Water Sales

Water sales revenue is recorded when water is delivered and service is rendered, including an estimated amount for unbilled service.

g. Accounts Receivable and Allowance for Doubtful Accounts

The District participates in the County of San Diego's Teeter Plan. Under the Plan, each year in June, the County advances the delinquent accounts receivables amount to the District. The advance is then collected from the taxpayer by the County. The County also receives penalty payments. As a result, the District does not record an allowance for doubtful accounts.

h. Inventory

Inventory consists of water stored at Red Mountain Reservoir and in any of the District's water distribution tanks in the service area, warehouse materials, supplies and equipment necessary to support operations. Inventory is valued at cost using the weighted average cost method. Warehouse materials, supplies and equipment are charged to inventory stores expense when they are issued at the weighted average cost. Water inventory is charged to the cost of water when sold.

i. Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses and are recorded utilizing the consumption method.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**j. Restricted Assets**

Amounts shown as restricted assets have been restricted by debt agreements, by law or regulations, or by contractual obligations to be used for specified purposes, such as service of debt and construction of capital assets.

k. Capital Assets and Depreciation

Capital assets are valued at cost when constructed or purchased. Donated assets, donated works of art and similar assets, and capital assets received in a service concession arrangement are reported at acquisition value. The District capitalizes all plant and office equipment with a value of \$5,000 or greater and a useful life of greater than three years. Improvements to existing capital assets are capitalized if they extend the useful life of the asset by three or more years and the cost of the improvement is \$5,000 or greater. Interest costs incurred while constructing capital assets can be capitalized as part of the specific capital assets. The cost of normal maintenance and repairs that do not add to the value of assets or materially extend asset lives are not capitalized. Depreciation on capital assets in service, excluding land, is computed using the straight-line method over the estimated useful lives of such assets and is reported as an operating expense. Capital projects are subject to depreciation or amortization when completed and placed in service. The ranges of estimated useful lives of capital assets are as follows:

Water Transmission and Distribution System:

Impounding dams and reservoirs	50 years
Pipelines	50 years
Other	20 to 25 years

Wastewater collection system, and treatment and disposal facilities	20 to 50 years
Buildings and structures	45 years
Equipment	3 to 10 years

l. Compensated Absences

Vested or accumulated vacation and sick leave is recorded as an expense and liability as benefits accrue to employees. Changes in compensated absences for the year ended June 30, 2020, were as follows:

Balance July 1, 2019	Additions	Deletions	Balance June 30, 2020	Due Within One Year
\$ 1,465,112	\$ 662,635	\$ (725,517)	\$ 1,402,230	\$ 560,892

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**m. Contributed Capital, Connection Fees and Water Availability Charges (Capacity Fees)**

Capital contributions for water and wastewater represent contributions of capital assets from developers and revenues from the California State proposition programs. Capital contributions are recorded in the statement of revenues, expenses and changes in net position at acquisition value at the date the ownership is transferred to the District.

Connection and water availability charges (capacity fees) for water and sewer represent purchases of water meters and fees to connect to the water distribution system or connect to the wastewater collections system by developers or landowners. Connection fees and water availability charges are used strictly for capital improvement.

n. Property Taxes and Assessments

Property taxes in California are levied in accordance with Article XIII A of the State Constitution at 1% of countywide assessed valuations. This levy is allocated pursuant to state law to the appropriate units of local government. Additional levies require two-thirds approval by the voters and are allocated directly to the specific government. Taxes and assessments are recognized as revenue based on amounts reported to the District by the San Diego County Tax Collector's Offices. The San Diego County Tax Collector's Offices acts as a collection agent for the property taxes which are normally collected twice a year.

Lien Date:	January 1
Levy Date:	July 1
Due Dates:	First Installment - November 1 Second Installment - February 1
Delinquent Dates:	First Installment - December 10 Second Installment - April 10

o. Use of Estimates

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

p. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources and pension expense, information about the fiduciary net position and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the CalPERS financial office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. CalPERS audited financial statements are publicly available reports that can be obtained at the CalPERS website under Forms and Publications.

q. Other Postemployment Benefits

For purposes of measuring the net OPEB liability and deferred outflows/inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District's OPEB Plan and additions to/deductions from the OPEB Plans' fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the District's OPEB Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value.

2. CASH AND INVESTMENTS

Cash and investments at June 30, 2020 are classified in the accompanying financial statements as follows:

Current Assets:	
Cash and cash equivalents	\$ 8,137,414
Restricted cash and cash equivalents	7,496,954
Investments	7,831,917
Restricted investments	3,059,526
Cash and cash equivalents with OPEB trust*	<u>1,040,486</u>
Total cash and investments	<u>\$ 27,566,297</u>

Cash and investments consist of the following:

Cash on hand	\$ 1,150
Deposits with financial institutions	2,601,552
Investments	<u>24,963,595</u>
Total cash and investments	<u>\$ 27,566,297</u>

*Reported on statement of fiduciary assets and liabilities.

Investments Authorized by the California Government Code and the District's Investment policy:

The table below identifies the investment types that are authorized for the District by the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of funds within the pension and other post-employment benefit (OPEB) trusts that are governed by the agreement of the District and the trustee, and 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.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer	Quality Requirements (S & P Rating)
U.S. Treasury Obligations	5 Years	No Limitation	No Limitation	No Limitation
Federal Agencies	5 Years	No Limitation	75%	No Limitation
State Obligations	5 Years	25%	5%	A/A-1
Supranationals	5 Years	30%	No Limitation	AA
Banker's Acceptances	180 Days	25%	5%	A-1
Commercial Paper	270 Days	25%	10%	A-1
Negotiable Certificates of Deposit	5 Years	30%	5%	A/A-1
Repurchase Agreements	1 Year	10%	No Limitation	No Limitation
Medium-Term Notes	5 Years	30%	5%	A
Passbook and Money Market Savings Accounts	No Limitation	No Limitation	No Limitation	No Limitation
Local Agency Investment Fund (LAIF)	No Limitation	No Limitation	No Limitation	No Limitation
County Pooled Investment Funds	No Limitation	No Limitation	No Limitation	No Limitation
California Local Agency Obligations	5 Years	25%	5%	A/A-1
Joint Powers Authority Pool	No Limitation	No Limitation	No Limitation	No Limitation
Money Market Mutual Funds	No Limitation	20%	No Limitation	AAA
Mortgage Pass-Through Securities	5 Years	20%	5%	AA

2. CASH AND INVESTMENTS (Continued)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.

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 to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity at June 30, 2020.

Investment Type	Total	Remaining Maturity (in Months)			
		12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months
Local Agency Investment Fund (LAIF)	\$ 3,676,617	\$ 3,676,617	\$ -	\$ -	\$ -
California Asset Management Program (CAMP)	2,562,569	2,562,569	-	-	-
Asset Backed Securities	775,403	-	97,598	677,805	-
Medium-Term Notes	3,641,149	964,064	813,525	1,863,560	-
Municipal Bonds	172,844	-	172,844	-	-
Negotiable Certificates of Deposit	281,991	281,991	-	-	-
U.S. Treasury Securities	5,886,114	102,125	2,435,356	3,348,633	-
Federal Agency Collateralized Mortgage Obligations	114,512	-	-	114,512	-
PARS Pooled Trust - Pension Trust	6,811,910	6,811,910	-	-	-
PARS Pooled Trust - OPEB Trust	1,040,486	1,040,486	-	-	-
Total	<u>\$ 24,963,595</u>	<u>\$ 15,439,762</u>	<u>\$ 3,519,323</u>	<u>\$ 6,004,510</u>	<u>\$ -</u>

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 by (where applicable) the California Government Code, the District's Investment Policy, or debt agreements, and the Standard & Poor's (S&P) rating for each investment type at June 30, 2020.

Investment Type	Total	Minimum Legal Rating*	Ratings as of Year End				
			Exempt from Disclosure	AAA	AA	A	Not Rated
Local Agency Investment Fund (LAIF)	\$ 3,676,617	Exempt	\$ -	\$ -	\$ -	\$ -	\$ 3,676,617
California Asset Management Program (CAMP)	2,562,569	AAA	-	2,562,569	-	-	-
Asset Backed Securities	775,403	A	-	775,403	-	-	-
Medium-Term Notes	3,641,149	A	-	-	-	3,641,149	-
Municipal Bonds	172,844	A/A-1	-	-	172,844	-	-
Negotiable Certificates of Deposit	281,991	A/A-1	-	-	281,991	-	-
U.S. Treasury Securities	5,886,114	Exempt	5,886,114	-	-	-	-
Federal Agency Collateralized Mortgage Obligations	114,512	AA	-	-	114,512	-	-
PARS Pooled Trust - Pension Trust	6,811,910	Exempt	-	-	-	-	6,811,910
PARS Pooled Trust - OPEB Trust	1,040,486	Exempt	-	-	-	-	1,040,486
Total	<u>\$ 24,963,595</u>		<u>\$ 5,886,114</u>	<u>\$ 3,337,972</u>	<u>\$ 569,347</u>	<u>\$ 3,641,149</u>	<u>\$ 11,529,013</u>

* Required to be rated accordingly by at least one Nationally Recognized Statistical Rating Organization (NRSRO)

Concentration of Credit Risk:

The investment policy of the District is in accordance with limitations on the amount that can be invested in any one issuer as stipulated by the California Government Code. The District holds no investments in any one issuer (other than for U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District investments at June 30, 2020.

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 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 and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local government 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 deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2020, \$1,554,442 of the District's deposits with financial institutions in excess of the Federal insurance limits were held in collateralized accounts.

Fair Value Measurements:

The District categorizes its fair value measurement within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the relative inputs used to measure the fair value of the investments. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Investments measured at cost or net asset value (NAV) are not subject to fair value measurement hierarchy.

The three levels of the fair value hierarchy are described as follows:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the District has the ability to access.
- Level 2: Inputs to the valuation methodology include:
- Quoted prices for similar assets or liabilities in active markets;
 - Quoted prices for identical or similar assets or liabilities in inactive markets;
 - Inputs other than quoted prices that are observable for the asset or liability;
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs reflect the District's own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances and may include the District's own data.

2. CASH AND INVESTMENTS (Continued)Fair Value Measurements (Continued)

The asset's or liability's level within the hierarchy is based on the lowest level of input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

	Quoted Prices Level 1	Observable Inputs Level 2	Unobservable Inputs Level 3	June 30, 2020
Investments by Fair Value Level				
Asset Backed Securities	\$ -	\$ 775,403	\$ -	\$ 775,403
Medium-Term Notes	-	3,641,149	-	3,641,149
Municipal Bonds	-	172,844	-	172,844
Negotiable Certificates of Deposit	-	281,991	-	281,991
U.S. Treasury Securities	-	5,886,114	-	5,886,114
Federal Agency Collateralized Mortgage Obligations	-	114,512	-	114,512
Total Investments by Fair Value Level	<u>\$ -</u>	<u>\$ 10,872,013</u>	<u>\$ -</u>	<u>10,872,013</u>
Investments measured at Cost or Net Asset Value (NAV)				
Local Agency Investment Fund (LAIF)				3,676,617
California Asset Management Program (CAMP)				2,562,569
PARS Pooled Trust - Pension Trust				6,811,910
PARS Pooled Trust - OPEB Trust				1,040,486
Total Investments at Cost or Net Asset Value (NAV)				<u>14,091,582</u>
Total Investments				<u>\$ 24,963,595</u>

3. CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2020, were as follows:

	(As Restated) Balance June 30, 2019	Additions	Deletions	Transfers/ Reclassifications	Balance June 30, 2020
Capital assets, not being depreciated:					
Land and property rights-water	\$ 11,704,070	\$ -	\$ -	\$ -	\$ 11,704,070
Land and property rights-wastewater	1,128,164	-	-	-	1,128,164
Construction in progress	1,313,302	32,150,949	-	(4,177,931)	29,286,320
Total capital assets, not being depreciated	14,145,536	32,150,949	-	(4,177,931)	42,118,554
Capital assets, being depreciated:					
Water Operations:					
Impounding Dam	30,584,347	-	-	995,040	31,579,387
Distribution System	52,015,901	-	-	2,183,271	54,199,172
Buildings and Structures	4,958,831	-	-	459,018	5,417,849
Equipment	10,357,488	458,579	(752,771)	153,104	10,216,400
Total Water Operations	97,916,567	458,579	(752,771)	3,790,433	101,412,808
Wastewater Operations:					
Collection system	12,747,135	311,842	-	265,142	13,324,119
Treatment and disposal facilities	60,220,650	-	-	107,910	60,328,560
Equipment	872,789	123,561	(144,446)	5,572	857,476
Total wastewater operations	73,840,574	435,403	(144,446)	378,624	74,510,155
Recycle Operations:					
Distribution System	4,653,100	-	-	8,874	4,661,974
Total recycle operations	4,653,100	-	-	8,874	4,661,974
Total capital assets being depreciated	176,410,241	893,982	(897,217)	4,177,931	180,584,937
Less accumulated depreciation	(75,816,878)	(6,637,996)	863,634	-	(81,591,240)
Total capital assets being depreciated, net	100,593,363	(5,744,014)	(33,583)	4,177,931	98,993,697
Total capital assets, net	\$ 114,738,899	\$ 26,406,935	\$ (33,583)	\$ -	\$ 141,112,251

The June 30, 2019 balance is restated to account for the effect of the prior period adjustment. See Note 10.

4. LONG-TERM DEBT

Changes in long-term debt for the year ended June 30, 2020 were as follows:

	Balance June 30, 2019	Additions	Deletions	Balance June 30, 2020	Due Within One Year
Red Mountain State Revolving Fund Loan	\$ 4,065,140	\$ -	\$ (293,220)	\$ 3,771,920	\$ 300,807
Qualified Energy Conservation Revenue Bonds	3,465,777	-	(325,386)	3,140,391	345,316
Clean Water State Revolving Fund Loan	25,943,460	-	(1,274,990)	24,668,470	1,303,039
State Water Resources Control Board Loan	-	27,331,718	-	27,331,718	-
Total Long-Term Debt	\$ 33,474,377	\$ 27,331,718	\$ (1,893,596)	\$ 58,912,499	\$ 1,949,162

4. LONG TERM DEBT (Continued)Red Mountain State Revolving Fund Loan

On June 21, 2010, The District entered into a loan agreement with the State of California Department of Public Health with interest at 2.57% payable semi-annually, and principal payments ranging from \$118,751 to \$195,414 due semi-annually beginning July 1, 2011 through January 1, 2031. The proceeds of the loan (\$6,159,773 disbursed during the fiscal year ending June 30, 2011) assisted the District in financing construction of the Red Mountain UV Filtration Plant, which enabled the District to meet the Federal safe drinking water standards. This standard is incorporated into the Long-Term Two Enhanced Surface Water Treatment Rule (LT2).

Future debt service requirements for the above loan payable based on the initial loan rate is as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 300,807	\$ 95,044	\$ 395,851
2022	308,589	87,262	395,851
2023	316,573	79,278	395,851
2024	324,764	71,087	395,851
2025	333,166	62,685	395,851
2026-2030	1,799,673	179,580	1,979,253
2031	388,348	7,504	395,852
Total	<u>\$ 3,771,920</u>	<u>\$ 582,440</u>	<u>\$ 4,354,360</u>

Qualified Energy Conservation Bonds (QECB) Solar Loan

On November 18, 2010, the District borrowed \$7,227,000 from the California Alternative Energy and Advanced Transportation Financing Authority, the proceeds of which were used to finance the construction of a solar project. Financing was secured at an interest rate of 5.74%. The Federal government will pay 70% of the Tax Credit Rate, which is 5.56% or 3.89%. The District's applicable interest rate is the difference between the taxable rate and the Federal Direct Pay rate, equivalent to 1.85% interest with principal payments ranging from \$134,593 to \$317,071 until November 18, 2027.

Future debt service requirements for the above loan payable based on the initial loan rate is as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 345,316	\$ 56,446	\$ 401,762
2022	366,104	49,969	416,073
2023	387,783	43,104	430,887
2024	410,388	35,834	446,222
2025	433,953	28,142	462,095
2026-2028	1,196,847	33,776	1,230,623
Total	<u>\$ 3,140,391</u>	<u>\$ 247,271</u>	<u>\$ 3,387,662</u>

4. LONG TERM DEBT (Continued)Clean Water State Revolving Fund Loan

On November 2, 2012, the District entered into a loan agreement with the California State Water Resources Control Board in the principal amount of \$22,154,148 with interest of 2.20%. In September 2013, the District entered into an amended loan agreement increasing the principal amount to \$28,723,000. The proceeds of the loan assisted the District fund costs associated with the Fallbrook Wastewater Treatment Plan I Rehabilitation project. Upon completion of the project in May 2016, accrued interest of \$886,644 on the amount drawn down was transferred to the loan principal, increasing the principal amount to \$29,609,644. Annual payments in the amount of \$1,845,746 including principal and interest is due beginning March 2017 through March 2036.

Future debt service requirements for the above loan payable based on the initial loan rate is as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 1,303,039	\$ 542,707	\$ 1,845,746
2022	1,331,706	514,040	1,845,746
2023	1,361,004	484,742	1,845,746
2024	1,390,946	454,800	1,845,746
2025	1,421,547	424,199	1,845,746
2026-2030	7,590,833	1,637,895	9,228,728
2031-2035	8,463,382	765,347	9,228,729
2036	1,806,013	39,732	1,845,745
Total	<u>\$ 24,668,470</u>	<u>\$ 4,863,462</u>	<u>\$ 29,531,932</u>

State Water Resources Control Board Loan

On August 28, 2019, the District entered into a loan agreement with the State Water Resources Control Board (SWRCB) with a principal amount of \$53,334,000 and an interest of 1.9%. On January 31, 2020, the District entered into an amended loan agreement increasing the principal amount to \$62,935,855 and annual debt service payments of \$2,771,216. The proceeds from the loan are funding construction of the District's Santa Margarita Conjunctive Use Project water treatment plant. The new treatment plant will treat locally supplied water taken from the Santa Margarita River Basin in accordance with District's water rights. With the project under currently construction, only interest payments on the amount drawn are due to SMRCB. Debt service payments are due March 1 of each year and full debt service payments are expected to begin 2023. The loan's term is 30-years and the final payment will be made 3/1/2052.

5. INVENTORY

Inventory at June 30, 2020 consisted of the following:

Water inventory	\$ 668,781
Materials inventory	<u>1,176,974</u>
	<u>\$ 1,845,755</u>

6. PENSION PLANS

a. General Information about the Pension Plan

Plan Description

All qualified permanent and probationary employees are eligible to participate in the Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan (the Plan), administered by the California Public Employees' Retirement System (CalPERS). The Plan's benefit provisions are established by statute. The Plan is included as a pension trust fund in the CalPERS Comprehensive Annual Financial Report, which is available online at www.calpers.ca.gov.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 to 62 with statutorily reduced benefits. All members are eligible for non-industrial disability benefits after five (5) years of service. The death benefit is one of the following: the basic death benefit or the 2W death benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law. Employees are eligible for service-related disability benefits regardless of length of service. An employee must be actively employed by the District at the time of disability in order to be eligible for this benefit. Disability benefits are determined by the products of 1.8 percent of final compensation and the factor of years of service. The basic death benefit is a lump sum in the amount of the member's accumulated contributions, where interest is currently credited at 7.5 percent per year, plus a lump sum in the amount of one month's salary for each completed year of current service, up to a maximum of six months' salary. Upon the death of a retiree, a one-time lump sum payment of \$500 will be made to the retiree's designated survivor(s), or to the retiree's estate.

The Plans' provisions and benefits in effect at June 30, 2019 measurement date, are summarized as follows:

	Miscellaneous	
	Prior to January 1, 2013	On or After January 1, 2013
Hire date		
Benefit formula	2.5%@55	2%@62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	50 - 63	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%	1.0% to 2.5%
Required employee contribution rates	8%	6.50%
Required employer contribution rates:		
Normal cost rate	11.419%	7.266%
Payment of unfunded liability	\$ 730,148	\$ 534

6. PENSION PLANS (Continued)**a. General Information about the Pension Plan (Continued)**Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. District contribution rates may change if plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contributions requirements are classified as plan member contributions.

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

As of June 30, 2020, Fallbrook Public Utility District reported net pension liabilities for its proportionate shares of the net pension liability of each risk pool as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous	<u>\$ 13,629,333</u>

The District's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2019, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018 rolled forward to June 30, 2019 using standard update procedures. The District's proportionate share of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

The Fallbrook Public Utility District's proportionate share of the net pension liability as of the measurement dates ended June 30, 2018 and 2019 was as follows:

	Miscellaneous
Proportion - June 30, 2018	0.33279%
Proportion - June 30, 2019	0.34035%
Change - Increase (Decrease)	0.00756%

6. PENSION PLANS (Continued)**b. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)**

For the year ended June 30, 2020, the District recognized pension expense of \$2,645,853. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 1,407,555	\$ -
Differences between actual and expected experience	946,614	73,343
Change in assumptions	649,910	230,388
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	-	238,282
Net differences between projected and actual earnings on plan investments	-	373,019
Total	<u>\$ 3,004,079</u>	<u>\$ 915,032</u>

\$1,407,555 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ending June 30,	Amount
2021	\$ 788,163
2022	(232,142)
2023	77,321
2024	48,150
2025	-
Thereafter	-

6. PENSION PLANS (Continued)**b. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)**Actuarial Assumptions

The total pension liability for the June 30, 2019 measurement period was determined by an actuarial valuation as of June 30, 2018, with update procedures to roll forward the total pension liability to June 30, 2019. The total pension liability was based on the following:

	<u>Miscellaneous</u>
Valuation Date	June 30, 2018
Measurement Date	June 30, 2019
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Salary Increases	(1)
Mortality Rate Table	(2)
Post Retirement Benefit Increase	(3)

- (1) Varies by entry age and service
- (2) The mortality table used was developed based on CalPERS-specific data. The table includes 15 years of mortality improvements using the Society of Actuaries Scale 90% of scale MP 2016. For more details on this table, please refer to the December 2017 experience study report (based on CalPERS demographic data from 1997 to 2015) available on the CalPERS website.
- (3) Contract COLA up to 2.50% until Purchasing Power Protection Allowance Floor on Purchasing Power applies.

6. PENSION PLANS (Continued)**b. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)**Long-term Expected Rate of Return

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

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

The expected real rates of return by asset class are follows:

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 (b)	Real Return Years 11+ (c)
Global Equity	50.00%	4.80%	5.98%
Fixed Income	28.00%	1.00%	2.62%
Inflation Assets	0.00%	0.77%	1.81%
Private Equity	8.00%	6.30%	7.23%
Real Assets	13.00%	3.75%	4.93%
Liquidity	1.00%	0.00%	-0.92%
Total	100.00%		

- (a) In the CalPERS CAFR, Fixed Income is included in Global Debt Securities;
Liquidity is included in Short-term investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities
- (b) An expected inflation of 2.0% used for this period
- (c) An expected inflation of 2.92% used for this period

Discount Rate

The discount rate used to measure the total pension liability was 7.15%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

6. PENSION PLANS (Continued)**b. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)**Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net pension liability of the each Plan, calculated using the discount rate for each Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

		<u>Miscellaneous Plan</u>
1% Decrease		6.15%
Net Pension Liability	\$	20,787,184
Current Discount Rate		7.15%
Net Pension Liability	\$	13,629,333
1% Increase		8.15%
Net Pension Liability	\$	7,721,033

Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

Payable to the Pension Plan:

At June 30, 2020, the District had no outstanding amount of contributions to the pension plan required for the year ended June 30, 2020.

7. OTHER POSTEMPLOYMENT BENEFITS

Plan Description:

The District administers its Public Agencies Post-Employment Health Care Plan (OPEB Plan), an agent multiple-employer defined benefit plan that is used to provide postemployment benefits other than pensions. The District's OPEB Plan provides continued medical dental, and vision coverage for an eligible retired employee, spouse or legal dependent. Coverage will continue for the retiree and spouse or legal dependent until they become entitled to Medicare Benefits at age 65.

Employees retiring after age 50, with 10 or more years of continuous employment, will have the mandatory amount estimated by the District at the date of retirement to be necessary to pay for 50% of the employee's monthly health insurance premium, and any additional costs for spouse and dependent(s) covered at the time of retirement. The difference between the total value of sick leave at retirement and the estimated cost benefit (medical, dental and vision) minus the estimated costs of 50% of the retiree's medical premium is deposited into a health reimbursement account at the District to pay for retiree benefits until Medicare entitlement or the account is depleted. The District's health reimbursement account (HRA) balance as of June 30, 2020 is \$351,796. The District will pay for half (50%) of the retired employee's monthly premium.

During the year ended June 30, 2017, the District entered into a trust agreement with Public Agency Retirement Services (PARS), as the trust administrator and U.S. Bank National Association (US Bank) as the trustee. Management of the OPEB Plan is vested with the General Manager of the District with oversight and governance by the District's Finance Committee. Benefit terms are as established by the District's board of directors and agreed upon between the District and the Fallbrook Public Utility District Employees' Association through Memorandum of Understanding. The PARS OPEB Trust issues a publicly available financial report for the fiduciary net position that is available upon request.

Employees Covered

As of the June 30, 2018 actuarial valuation, the following current and former employees were covered by the benefit terms under the plan:

	<u>Number of Participants</u>
Inactive employees currently receiving benefits	10
Participating Active Employees	63
Total	<u>73</u>

Contributions

The District has historically funded the plan on a pay-as-you-go basis. Plan members are not required to contribute to the OPEB Plan. For the fiscal year ended June 30, 2019, the District made \$42,356 in payments made outside of the trust.

Net OPEB Liability

The District's net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2018, rolled forward to June 30, 2019 using standard update procedures. A summary of the principal assumptions and methods used to determine the total OPEB liability is shown below.

7. OTHER POSTEMPLOYMENT BENEFITS (Continued)Actuarial Methods and Assumptions

The total OPEB liability as of June 30, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Valuation Date	June 30, 2018
Measurement Date	June 30, 2019
Actuarial Cost Method	Entry-Age Actuarial Cost Method
Actuarial Assumptions:	
Discount Rate	6.00%
Projected Salary Increase	3.0% per year
Expected long term investment rate of return, net of plan investment expense	6.00%
Healthcare Cost Trend Rates	5.90 percent for 2019; 5.80 percent for 2020; 5.70 percent for 2021; and decreasing 0.10 percent per year to an ultimate rate of 5.00 percent for 2028 and later years
Mortality	Based on the RP-2014 Health Annuitant Mortality Table for Males or Females, as appropriate, without projection.

7. OTHER POSTEMPLOYMENT BENEFITS (Continued)

Investment Policy

The OPEB Plan has an established investment guidelines policy document which provides a framework for a well-diversified asset mix that can potentially be expected to meet the trusts short and long-term needs consistent with the District’s investment objectives, liquidity considerations and risk tolerance. The investment guidelines facilitate the process of ongoing communication between the District and the plan fiduciaries and help maintain a long-term perspective when market volatility is caused by short-term market movements. As the trustee, US Bank has delegated investment authority to Highmark Capital Management (Highmark) as the investment manager. Highmark has full investment discretion over the managed assets in the trust and is authorized to purchase, sell, exchange, invest, reinvest, and manage the OPEB Plan assets in accordance with the trust’s investment objectives.

The goal of the trust’s investment program is to generate adequate long-term returns that, when combined with contributions, will result in sufficient assets to pay the present and future obligations of the OPEB Plan. The following objectives are intended to assist in achieving this goal:

- The OPEB Plan assets should earn, on a long-term average basis, a rate of return equal to or more than the target rate of return of 5.35%;
- The OPEB Plan trust should seek to earn a return more than its policy benchmark over the long-term;
- The OPEB Plan assets will be managed on a total return basis which considers both investment income and capital appreciation. As the plan sponsor the District recognizes the importance of preservation of capital, but also adheres to the principle that varying degrees of investment risk are generally rewarded with compensating returns.

To achieve the objectives above, the District has established an asset allocation which strives for the growth of income and principal with a strategic, long-term perspective of the capital markets. With a moderate risk tolerance, the following table summarizes the District’s OPEB Plan trust asset allocation policy:

Asset Class	New Strategic Allocation
Cash	0-20%
Fixed Income	40% - 60%
Equity	40% - 60%

7. OTHER POSTEMPLOYMENT BENEFITS (Continued)Discount Rate

The discount rate used to measure the total OPEB liability was 6.0 percent. The projection of cash flows used to determine the discount rate assumed that District contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected OPEB payments of current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Changes in the Net OPEB Liability

The changes in the net OPEB liability are as follows:

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability (Asset)
Balance at June 30, 2018	\$ 1,082,861	\$ 947,784	\$ 135,077
Changes in the Year:			
Service cost **	57,291	-	57,291
Interest on the total OPEB liability	62,409	-	62,409
Contribution - employer	-	86,699	(86,699)
Net investment income	-	61,267	(61,267)
Administrative expenses	-	(2,402)	2,402
Benefit payments	(86,699)	(86,699)	-
Net Changes	33,001	58,865	(25,864)
Balance at June 30, 2019	\$ 1,115,862	\$ 1,006,649	\$ 109,213

** - Service Cost - The actuarial present value of projected benefits payments that are attributed to the valuation year.

7. OTHER POSTEMPLOYMENT BENEFITS (Continued)Change of Assumptions

From the June 30, 2017 to the June 30, 2018 Valuation, the discount rate used increased by 2% (from 4% to 6%), the expected long-term rate of return, net of plan investment expense increased by 2% (from 4% to 6%), and healthcare trend rate assumptions decreased by 2% (from 8% to 6%).

Change of Benefit Terms

There were no changes of benefit terms.

Subsequent Events

There were no subsequent events that would materially affect the results presented in this disclosure.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (5.00%) or 1-percentage point higher (7.00%) than the current discount rate:

	1% Decrease (5.0%)	Discount Rate (6.0%)	1% Increase (7.0%)
Net OPEB Liability	\$ 189,321	\$ 109,213	\$ 35,552

Sensitivity of the Total OPEB Liability to Changes in Health-Care Cost Trend Rates

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage point lower (4.90% decreasing to 4.00%) or 1 percentage point higher (6.90% decreasing to 6.00%), than the current healthcare cost trend rates:

	1% Decrease (4.90% decreasing to 4.00%)	Current Healthcare Cost Trend Rates (5.90% decreasing to 5.00%)	1% Increase (6.90% decreasing to 6.00%)
Net OPEB Liability	\$ 8,316	\$ 109,213	\$ 224,811

7. OTHER POSTEMPLOYMENT BENEFITS (Continued)OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the year ended June 30, 2020, the District recognized OPEB expense of \$66,409. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to the measurement date	\$ 99,786	\$ -
Differences between actual and expected experience	131,817	-
Change in assumptions	-	(90,337)
Differences between projected and actual earnings	-	(10,046)
Total	<u>\$ 231,603</u>	<u>\$ (100,383)</u>

\$99,786 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2021.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ending June 30,	Amount
2021	\$ 3,576
2022	3,578
2023	5,417
2024	7,008
2025	7,406
Thereafter	4,449

Payable to the OPEB Plan

At June 30, 2020, the District had no outstanding amount of contributions to the OPEB plan required for the year ended June 30, 2020.

8. 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; injuries to employees; and natural disaster.

The District is a participating member of the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA), which arranges for and provides for various insurance programs to its member agencies. The District pays a premium commensurate with the level of coverage requested. The District has elected to self-insure for a portion of property damage coverage in the amount of \$10,000 per occurrence.

At June 30, 2020, the District participated in ACWA/JPIA as follows:

Liability – General, Auto & Public Officials Errors & Omissions – ACWA/JPIA pools for the first \$5 million and purchases excess coverage up to \$55 million per occurrence, except terrorism \$5 million, subsidence \$30 million, lead \$30 million, and mold \$35 million.

Cyber Liability – Insured through Indian Harbor Insurance Company, with coverage limits of \$3 million per claim and \$5 million in the aggregate.

Property Program – ACWA/JPIA pools for the first \$100,000 and purchases excess coverage up to \$500 million, except for Boiler & Machinery \$100 million per occurrence, Earthquake \$2,500,000 program aggregate and Flood \$25 million. Deductibles are \$10,000 for real and personal property, \$10,000 for mobile equipment, licensed vehicles/trailers, \$25,000 for boiler and machinery, except \$50,000 if Turbine or Power Generation equipment, 5% of total insurable values for earthquake and \$100,000 for flood.

Crime Program – coverage limit of \$100,000 per loss, with a \$1,000 deductible.

Worker's Compensation and Employer's Liability Program – Worker's Compensation coverage limit up to California Statutory Limits. Employer's Liability coverage limit \$4 million program aggregate.

Dam Failure Liability – For Red Mountain Dam. Coverage limit of \$5 million per occurrence.

During the past three years, there have been no instances where the amount of claims settlements exceeded insurance coverage, nor have there been any significant reductions of insurance coverage.

9. COMMITMENTS AND CONTINGENCIES

Construction Commitments

At June 30, 2020, the District had the following commitments with respect to unfinished capital projects:

Capital Projects	Remaining Construction Commitment	Expected Completion Date
Overland Trail Lift Station Rehabilitation	\$ 2,200,000	February 2021
SMRCUP	\$ 31,900,000	December 2021
Winterhaven Pipeline Replacement	\$ 250,000	September 2021
Water Supply Reliability Project	\$ 350,000	October 2021
EAM Implementation	\$ 35,000	June 2021

9. COMMITMENTS AND CONTINGENCIES (Continued)Litigation

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. The District has (a) determined that it has no litigation pending with service of process completed which would have a material effect on its financial condition and (b) believes, to its current actual knowledge and after due inquiry and consultation with legal counsel, that no litigation has been threatened against the District in any court which would have a material effect on its financial condition.

COVID-19

On January 30, 2020 the World Health Organization (WHO) announced a global health emergency based on an outbreak of a new strain of coronavirus (the COVID-19 outbreak) and the risks that are posed to the international community as the virus spread globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic based on the rapid increase in exposure globally.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the District's financial condition, liquidity, and future results of operations. Management is actively monitoring the impact of the global situation on the District's financial condition, liquidity, operations, and workforce. The District cannot estimate the length or gravity of the impact of the COVID-19 outbreak at this time; however, if the pandemic continues, it may have a material effect on the District's results of future operations and financial position in fiscal year 2021.

10. PRIOR PERIOD ADJUSTMENT

During fiscal year ended June 30, 2020, the District found that three capital assets had been incorrectly depreciated in prior years. This led to an overstatement of accumulated depreciation and an understatement of Net Position in the amount of \$1,139,122. Beginning capital asset balances on Note 3 have been restated to reflect the adjustment to beginning accumulated depreciation.

11. SUBSEQUENT EVENTS

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through November 23, 2020, the date the financial statements were available to be issued.

1. SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY – DEFINED BENEFIT PENSION PLANS

For the Last Ten Fiscal Years*

	2020	2019	2018	2017	2016	2015
Classic & PEPR Miscellaneous Plan						
Plan's Proportion of the Net Pension Liability	0.13301%	0.13015%	0.12853%	0.12729%	0.12295%	0.11351%
Plan's Proportionate Share of the Net Pension Liability	\$ 13,629,333	\$ 12,541,929	\$ 12,746,294	\$ 11,014,856	\$ 8,439,096	\$ 6,888,388
Covered Payroll	\$ 5,179,369	\$ 5,216,869	\$ 5,271,090	\$ 4,743,986	\$ 4,753,842	\$ 4,683,594
Plan's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	263.15%	240.41%	241.82%	232.19%	177.52%	147.07%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	75.26%	75.26%	73.31%	74.06%	78.40%	83.21%
Plan's Proportionate Share of Aggregate Employer Contribution	\$ 1,640,356	\$ 1,410,070	\$ 1,335,205	\$ 1,234,176	\$ 1,177,856	\$ 1,014,669

Notes to Schedule:

Benefit Changes:

There were no changes in benefits.

Changes in Assumptions:

From fiscal year June 30, 2015 to June 30, 2016

GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50% used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

From fiscal year June 30, 2016 to June 30, 2017

There were no changes in assumptions.

From fiscal year June 30, 2017 to June 30, 2018

The discount rate was reduced from 7.65% to 7.15%.

From fiscal year June 30, 2018 to June 30, 2019

There were no changes in assumptions.

From fiscal year June 30, 2019 to June 30, 2020

There were no changes in assumptions.

* Fiscal year 2015 was the 1st year of implementation, therefore only six years are shown.

2. SCHEDULE OF CONTRIBUTIONS – DEFINED BENEFIT PENSION PLANS

For the Last Ten Fiscal Years*

	2020	2019	2018	2017	2016	2015
Contractually required contribution (actuarially determined)	\$ 1,407,555	\$ 1,224,180	\$ 1,081,154	\$ 968,372	\$ 870,680	\$ 756,872
Contributions in relation to the actuarially determined contributions	1,407,555	1,224,180	1,081,154	968,372	870,680	756,872
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 5,448,979	\$ 5,179,369	\$ 5,216,869	\$ 5,271,090	\$ 4,743,986	\$ 4,753,842
Contributions as a percentage of covered payroll	25.83%	23.64%	20.72%	18.37%	18.35%	15.92%

Notes to Schedule:

Valuation Date	6/30/2017	6/30/2016	6/30/2015	6/30/2014	6/30/2013	6/30/2012
----------------	-----------	-----------	-----------	-----------	-----------	-----------

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry age**
Amortization method	Level percentage of payroll, closed**
Asset valuation method	Market Value***
Inflation	2.75%**
Salary increases	Depending on age, service, and type of employment**
Investment rate of return	7.375%, net of pension plan investment expense, including inflation**
Retirement age	50 years (2% at 55), 62 years (2% at 62), 50 years (2% at 50)
Mortality	Mortality assumptions are based on mortality rates resulting from the most recent CalPERS Experience Study adopted by the CalPERS Board.**

* - Fiscal year 2015 was the 1st year of implementation, therefore only six years are shown.

** - The valuations for June 30, 2012 through June 30, 2016 (applicable to fiscal years ended June 30, 2015 through June 30, 2019) included the same actuarial assumptions.

*** - The valuation for June 30, 2012 (applicable to fiscal year ended June 30, 2015) valued assets using a 15 Year Smoothed Market method. The market value asset valuation method was utilized for the June 30, 2013 through June 30, 2016 valuations (applicable to fiscal years ended June 30, 2016 through June 30, 2019).

3. SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS

For the Last Ten Fiscal Years*

Fiscal year end	6/30/2020	6/30/2019	6/30/2018
Measurement date	6/30/2019	6/30/2018	6/30/2017
Total OPEB Liability:			
Service cost	\$ 57,291	\$ 63,116	\$ 61,278
Interest on total OPEB liability	62,409	39,301	38,242
Difference between expected and actual experience	-	178,893	-
Changes of assumptions	-	(122,601)	-
Benefit payments, including refunds of	(86,699)	(115,569)	(31,396)
Net Change in Total OPEB Liability	33,001	43,140	68,124
Total OPEB Liability - Beginning of Year	1,082,861	1,039,721	971,597
Total OPEB Liability - End of Year (a)	1,115,862	1,082,861	1,039,721
Plan Fiduciary Net Position:			
Contributions - employer	86,699	268,569	767,396
Net investment income	61,267	40,802	20,571
Administrative expenses	(2,402)	(1,970)	(619)
Benefit payments	(86,699)	(115,569)	(31,396)
Net Change in Plan Fiduciary Net Position	58,865	191,832	755,952
Plan Fiduciary Net Position - Beginning of Year	947,784	755,952	-
Plan Fiduciary Net Position - End of Year (b)	1,006,649	947,784	755,952
Net OPEB Liability - Ending (a)-(b)	\$ 109,213	\$ 135,077	\$ 283,769
Plan fiduciary net position as a percentage of the total OPEB liability	90.21%	87.53%	72.71%
Covered-employee payroll	\$ 5,179,369	\$ 5,216,869	\$ 5,684,049
Net OPEB liability as percentage of covered - employee payroll	2.11%	2.59%	4.99%

Notes to Schedule:

Benefit Changes:

There were no changes in benefits.

Changes in Assumptions:

From the June 30, 2017 to the June 30, 2018 Valuation, the discount rate used increased by 2% (from 4% to 6%), the expected long-term rate of return, net of plan investment expense increased by 2% (from 4% to 6%), and healthcare trend rate assumptions decreased by 2% (from 8% to 6%).

* Fiscal year 2018 was the first year of implementation; therefore, only three years are shown.

4. SCHEDULE OF CONTRIBUTIONS - OPEB

For the Last Ten Fiscal Years*

	6/30/2020	6/30/2019	6/30/2018
Actuarially determined contribution	\$ 66,239	\$ 72,529	\$ 74,065
Contributions in relation to the actuarially determined contributions	(99,786)	(67,197)	(202,055)
Contribution deficiency (excess)	\$ (33,547)	\$ 5,332	\$ (127,990)
Covered- employee payroll	\$ 5,448,979	\$ 5,179,369	\$ 5,216,869
Contributions as a percentage of covered-employee payroll	1.22%	1.40%	1.42%

Notes to Schedule:

Valuation Date	6/30/2018	6/30/2018	6/30/2017
Methods and Assumptions Used to Determine Contribution Rates:			
Actuarial Cost Method	Entry age actuarial cost method **		
Discount Rate	6%		
Projected Salary increases	3.0% Per Year		
Expected long term investment rate of return, net of plan investment expenses.	6.00%		
Healthcare Cost Trend Rate	5.90 percent for 2019; 5.80 percent for 2020; 5.70 percent for 2021; and decreasing 0.10 percent per year to an ultimate rate of 5.00 percent for 2028 and later years		
Mortality	Based on the RP-2014 Health Annuitant Mortality Table for Males or Females, as appropriate, without projection.		

* Fiscal year 2018 was the first year of implementation; therefore, three years are shown.

** Entry age is based on the age at hire for eligible employees. The attribution period is determined as the difference between the expected retirement age and the age at hire. The actuarial present value of projected benefits and present value of future service costs are determined on an employee by employee basis and then aggregated.

To the extent that different benefit formulas apply to different employees of the same class, the service cost is based on the benefit plan applicable to the most recently hired employees (including future hires if a new benefit formula has been agreed to and communicated to employees).

FALLBROOK PUBLIC UTILITY DISTRICT

SUPPLEMENTARY INFORMATION

SCHEDULE OF OPERATING INCOME AND EXPENSES

FOR THE YEAR ENDED JUNE 30, 2020

	<u>Water</u>	<u>Recycled water</u>	<u>Wastewater</u>	<u>Total</u>
Operating Revenues:				
Water Sales	\$ 21,940,234	\$ -	\$ -	\$ 21,940,234
Recycled Water Sales	-	1,059,305	-	1,059,305
Wastewater Sales	-	-	5,931,468	5,931,468
Total Operating Revenues	<u>21,940,234</u>	<u>1,059,305</u>	<u>5,931,468</u>	<u>28,931,007</u>
Operating Expenses:				
Cost of Water Sold	12,663,006	-	-	12,663,006
Operations and Maintenance	3,984,938	433,945	3,286,965	7,705,848
Administrative and General Expenses	3,985,541	63,499	2,178,369	6,227,409
Total Operating Expenses Before Depreciation	<u>20,633,485</u>	<u>497,444</u>	<u>5,465,334</u>	<u>26,596,263</u>
Depreciation Expense	3,759,996	60,201	2,817,799	6,637,996
Total Operating Expenses	<u>24,393,481</u>	<u>557,645</u>	<u>8,283,133</u>	<u>33,234,259</u>
Operating Income (Loss)	<u>\$ (2,453,247)</u>	<u>\$ 501,660</u>	<u>\$ (2,351,665)</u>	<u>\$ (4,303,252)</u>

FOR THE YEAR ENDED JUNE 30, 2019

	<u>Water</u>	<u>Recycled water</u>	<u>Wastewater</u>	<u>Total</u>
Operating Revenues:				
Water Sales	\$ 20,481,788	\$ -	\$ -	\$ 20,481,788
Recycled Water Sales	-	998,942	-	998,942
Wastewater Sales	-	-	5,463,820	5,463,820
Total Operating Revenues	<u>20,481,788</u>	<u>998,942</u>	<u>5,463,820</u>	<u>26,944,550</u>
Operating Expenses:				
Cost of Water Sold	12,650,795	-	-	12,650,795
Operations and Maintenance	3,444,139	548,821	2,956,457	6,949,417
Administrative and General Expenses	3,807,921	51,473	2,090,222	5,949,616
Total Operating Expenses Before Depreciation	<u>19,902,855</u>	<u>600,294</u>	<u>5,046,679</u>	<u>25,549,828</u>
Depreciation Expense	3,290,052	54,807	2,813,730	6,158,589
Total Operating Expenses	<u>23,192,907</u>	<u>655,101</u>	<u>7,860,409</u>	<u>31,708,417</u>
Operating Income (Loss)	<u>\$ (2,711,119)</u>	<u>\$ 343,841</u>	<u>\$ (2,396,589)</u>	<u>\$ (4,763,867)</u>

STATISTICAL SECTION

Financial Position 65-67

These tables show the District's financial position over the reporting period.

District Operations 68-81

These tables show the Districts revenues and expenses, the District's rates and charges and the District's property tax revenues.

Debt Capacity 82-83

These tables show the District's debt capacity and ability to meet its debt service coverage requirements.

Demographic and Economic Information 84

These tables provide demographic and economic information on the District's service area. Because the District is part of the unincorporated region of the San Diego County, County wide data is reported.

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Table #1 - Net Positions

Fiscal Year	Net Investment in Capital Assets	Restricted	Unrestricted	Total Net Position
2011	\$ 60,487,772	\$ 2,613,866	\$ 7,671,400	\$ 70,773,038
2012	60,609,683	1,212,780	10,336,039	72,158,502
2013	60,609,683	1,213,780	10,336,039	72,159,502
2014	64,203,257	2,431,978	12,479,645	79,114,880
2015	67,995,640	2,231,947	4,807,404	75,034,991
2016	70,683,956	3,455,377	5,170,519	79,309,852
2017	76,004,617	3,495,635	5,668,185	85,168,437
2018	79,333,568	4,711,487	2,038,252	86,083,307
2019	81,264,522	9,477,694	6,465,333	97,207,549
2020	82,199,752	10,188,202	6,316,800	98,704,754

Source: Fallbrook Public Utility District

Table #2 - Changes in Net Position and Net Position by Component, Last Ten Fiscal Years

	Fiscal Year 2011	Fiscal Year 2012	Fiscal Year 2013
Changes in Net Position:			
Operating Revenues (See Schedule 2)	\$ 21,255,448	\$ 23,661,715	\$ 27,582,160
Operating Expenses (See Schedule 3)	(24,175,989)	(26,140,572)	(28,007,733)
Other Operating Revenues	363,564	279,560	439,560
Operating Income (loss)	\$ (2,556,977)	\$ (2,199,297)	\$ 13,987
Non-Operating Revenues (expenses)			
Property Taxes Ad-Valorem	\$ 1,549,625	\$ 1,552,911	\$ 1,582,219
Capital Improvement Charges	404,175	414,910	1,252,501
California Solar Initiative Rebate	-	534,835	779,786
Investment income	147,486	87,217	30,507
Water Availability Charges	200,944	200,906	201,037
Lease Revenue	184,983	177,095	181,100
Intergovernmental Revenue - Federal Interest Subsidy	-	-	-
Connection Fees	112,499	190,932	247,607
Federal Grants	-	-	-
Gain (Loss) on disposal of capital assets	-	-	-
Other Non-Operating Revenues	102,704	109,261	81,008
Other Non-Operating Expenses	(508,849)	(294,462)	(291,721)
Total Non-Operating Revenues(expenses), net	\$ 2,193,567	\$ 2,973,605	\$ 4,064,044
Net income Before Capital Contributions	\$ (363,410)	\$ 774,308	\$ 4,078,031
Capital Contributions	3,094,483	273,825	595,205
Capital Grant - Proposition 50	-	338,331	-
Capital Grant - Proposition 84	-	-	-
Extraordinary Items	-	-	-
Changes in Net Position	\$ 2,731,073	\$ 1,386,464	\$ 4,673,236
Net Position			
Beginning, as restated	\$ 68,041,965	\$ 70,773,038	\$ 72,159,502
Adjustments to restate balance	-	-	(154,385)
Ending, as restated	\$ 70,773,038	\$ 72,159,502	\$ 76,678,353

(1) Capital Grant of \$828,598 was received from State of California Wildlife Conservation Board Proposition 50 Funding.

(2) Accumulative effect of change in accounting principals.

(3) State Proposition 50 in the amount of \$874,040 and State Proposition 84 in the amount of \$68,428 was received

Source: Fallbrook Public Utility District

Table #2 - Changes in Net Position and Net Position by Component, Last Ten Fiscal Years, Continued

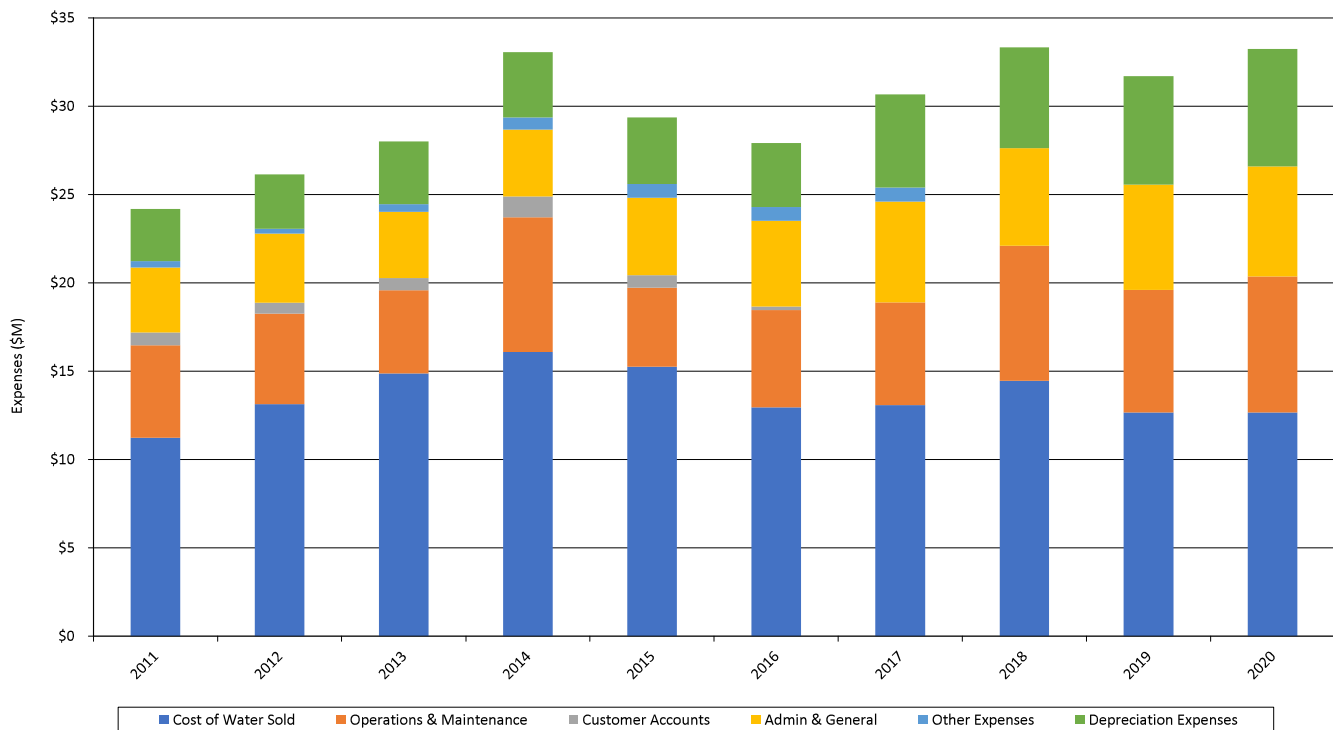
Fiscal Year 2014	Fiscal Year 2015	Fiscal Year 2016	Fiscal Year 2017	Fiscal Year 2018	Fiscal Year 2019	Fiscal Year 2020
\$ 28,955,183 (33,062,764) 681,876	\$ 27,483,881 (29,367,701) -	\$ 25,356,017 (27,921,351) -	\$ 27,256,065 (30,678,705) -	\$ 29,882,022 (33,319,799) -	\$ 26,944,550 (31,708,417) -	\$ 28,931,007 (33,234,259) -
\$ (3,425,705)	\$ (1,883,820)	\$ (2,565,334)	\$ (3,422,640)	\$ (3,437,777)	\$ (4,763,867)	\$ (4,303,252)
\$ 1,694,090 1,981,822 843,714 209,175 200,779 183,641 - 118,581 - - 69,816 (344,730)	\$ 1,719,296 2,134,025 729,519 141,433 200,810 185,770 - 208,521 - - 162,913 (321,941)	\$ 1,815,734 2,224,529 740,125 324,126 200,808 185,220 185,040 131,894 - - 91,361 (690,409)	\$ 1,889,808 2,283,558 234,930 63,861 200,730 166,012 238,765 238,124 - - 32,729 (385,483)	\$ 1,984,543 2,476,452 - 18,188 229,400 178,602 145,338 411,774 - (273,396) - (959,015)	\$ 2,106,034 2,505,876 - 915,275 204,359 199,433 134,924 180,966 - 9,338,297 - (909,966)	\$ 2,205,975 2,559,135 - 920,135 204,418 249,092 123,762 107,107 - (31,450) - - (910,224)
\$ 4,956,888	\$ 5,160,346	\$ 5,208,428	\$ 4,963,034	\$ 4,211,886	\$ 14,675,198	\$ 5,427,950
\$ 1,531,183	\$ 3,276,526	\$ 2,643,094	\$ 1,540,394	\$ 774,109	\$ 9,911,331	\$ 1,124,698
76,746 828,598 ⁽¹⁾ - -	153,790 224,596 ⁽¹⁾ - -	75,299 874,040 ⁽³⁾ 682,428 -	59,509 773,163 - -	73,661 - 67,100 -	73,789 - - -	372,507 - - -
\$ 2,436,527	\$ 3,654,912	\$ 4,274,861	\$ 2,373,066	\$ 914,870	\$ 9,985,120	\$ 1,497,205
\$ 76,678,353	\$ 79,114,880	\$ 75,034,991	\$ 79,309,852	\$ 85,168,437	\$ 86,083,307	\$ 97,207,549
-	(7,734,801) ⁽²⁾	-	3,485,519	-	1,139,122	-
\$ 79,114,880	\$ 75,034,991	\$ 79,309,852	\$ 85,168,437	\$ 86,083,307	\$ 97,207,549	\$ 98,704,754

Table #3 - Operating Expenses by Activity (Last Ten Fiscal Years)

Fiscal Year	Water				
	Cost of Water Sold	Operations & Maintenance	Customer Accounts	Admin & General ⁽¹⁾	Other Expenses
2011	\$ 10,771,752	\$ 2,461,466	\$ 726,636	\$ 2,024,761	N/A
2012	12,647,833	2,570,414	611,736	2,148,057	N/A
2013	14,457,083	2,350,655	700,158	2,056,605	N/A
2014	15,649,781	3,810,606	1,179,998	2,006,124	N/A
2015	14,692,652	2,173,576	725,610	2,286,586	N/A
2016	12,804,470	2,788,548	203,560	2,571,803	N/A
2017	13,067,064	3,030,201	N/A	2,963,305	N/A
2018	14,453,229	3,922,528	N/A	2,868,610	N/A
2019	12,650,795	3,444,139	N/A	3,807,921	N/A
2020	12,663,006	3,984,938	N/A	3,985,541	N/A

Note: (1) - General and administration costs are allocated as follows: 64% water, 35% wastewater, and 1% recycled water.

Source: Fallbrook Public Utility District

Chart #1 - Operating Expenses by Activity

Source: Fallbrook Public Utility District

Table #3 - Operating Expenses by Activity (Last Ten Fiscal Years), Continued

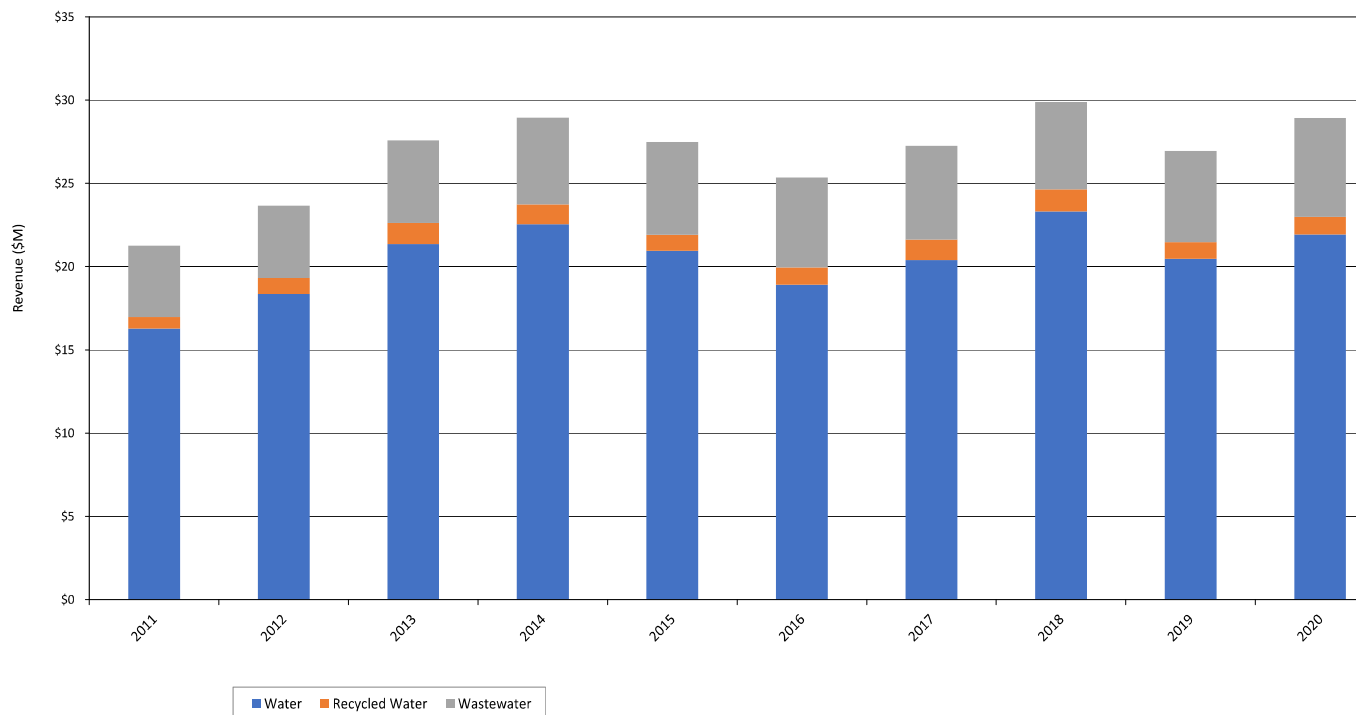
Recycled				Wastewater			Depreciation Expenses	Total Operating Expenses
Cost of Water Sold	Operations & Maintenance	Admin & General*	Other Expenses	Operations & Maintenance	Admin & General*	Other Expenses		
\$ 461,085	\$ 32,320	\$ 146,516	\$ 193,560	\$ 2,742,465	\$ 1,501,790	\$ 170,004	\$ 2,943,634	\$ 24,175,989
492,962	53,275	156,733	79,560	2,494,189	1,606,509	200,000	3,079,304	26,140,572
403,582	52,675	149,252	79,560	2,309,384	1,529,836	360,000	3,558,943	28,007,733
427,328	63,620	188,964	171,960	3,765,046	1,584,190	509,916	3,705,231	33,062,764
551,866	N/A	337,226	92,400	2,296,712	1,763,527	671,052	3,776,494	29,367,701
146,128	N/A	242,623	94,248	2,709,284	2,038,033	682,536	3,640,118	27,921,351
N/A	622,997	346,173	94,248	2,173,738	2,392,289	694,380	5,294,310	30,678,705
N/A	693,971	330,993	N/A	3,039,790	2,316,954	N/A	5,693,723	33,319,799
N/A	548,821	51,473	N/A	2,956,457	2,090,222	N/A	6,158,589	31,708,417
N/A	433,945	63,499	N/A	3,286,965	2,178,369	N/A	6,637,996	33,234,259

Table #4 - Operating Revenues by Source (Last Ten Fiscal Years)

Fiscal Year	Water			Recycled			Wastewater		Total Operating Revenue
	Water Sales	Service Charges	Other Charges	Water Sales	Service Charges	Other Charges	Service Charges	Other Charges	
2011	\$ 10,728,119	\$ 4,531,720	\$ 1,029,567	\$ 449,322	\$ 43,576	\$ 200,345	\$ 4,162,654	\$ 110,145	\$ 21,255,448
2012	12,778,113	4,524,843	1,062,054	592,986	55,373	312,948	4,331,022	4,376	23,661,715
2013	15,458,783	4,702,564	1,190,568	777,329	50,316	445,859	4,950,757	5,984	27,582,160
2014	16,587,771	4,772,242	1,188,741	802,509	50,972	344,423	5,205,516	3,009	28,955,183
2015	14,722,792	4,930,254	1,295,660	662,849	53,011	244,466	5,571,362	3,487	27,483,881
2016	12,328,995	5,000,621	1,583,301	824,925	59,359	156,353	5,402,353	110	25,356,017
2017	13,233,057	5,388,463	1,783,859	1,135,841	N/A	86,620	5,627,476	749	27,256,065
2018	16,194,537	5,777,173	1,340,062	1,153,170	17,956	156,060	5,258,183	(15,119)	29,882,022
2019	12,997,586	6,291,436	1,192,767	920,376	(17,974)	96,541	5,453,590	10,230	26,944,550
2020	14,040,914	6,782,468	1,116,852	949,040	51,745	58,520	5,924,878	6,590	28,931,007

Source: Fallbrook Public Utility District

Chart #2 - Operating Revenues by Source



Source: Fallbrook Public Utility District

Table #5 - Water Rates (\$/Kgal*) ⁽¹⁾

Fiscal Year	Domestic Tier 1	Domestic Tier 2	Domestic Tier 3	Commercial Tier 1	Commercial Tier 2	Government	Special Ag Rate	Commercial Ag Rate
2011	\$ 3.06	\$ 3.52	\$ 3.88	\$ 3.06	\$ 3.52	\$ 3.52	\$ 2.63	\$ 3.06
2012	3.51	4.04	4.45	3.51	4.04	4.04	2.81	3.45
2013	3.86	4.44	4.89	3.86	4.44	4.44	3.05	3.86
2014	4.03	4.64	5.11	4.03	4.64	4.64	3.14	4.06
2015	4.19	4.61	5.08	4.19	4.61	4.61	3.14	4.06
2016	4.38	4.82	5.31	4.38	4.82	4.82	3.18	4.28
2017	5.21	5.74	6.32	5.21	5.74	5.74	3.65	4.97
2018	5.62	5.71	6.95	5.79	5.79	5.70	4.17	4.83
2019	5.96	6.05	6.04	6.14	6.14	6.04	4.42	5.12
2020	6.44	6.53	7.96	6.63	6.63	6.52	4.77	5.53

*Kgal = 1,000 gal

Note: (1) - The District is required to follow the rules of Proposition 218 when raising or adjusting its rates.

Source: Fallbrook Public Utility District

Table #6 - Non-Agricultural/Government Monthly Water Service Charge (\$/month)

Fiscal Year	3/4" Meter	1" Meter	1 ½" Meter	2" Meter	3" Meter	4" Meter	6" Meter	Standby
2011	\$ 34.87	\$ 45.37	\$ 64.74	\$ 94.75	\$ 154.57	\$ 245.77	\$ 439.24	20.78
2012	34.87	45.37	64.74	94.75	154.57	245.77	439.24	20.78
2013	36.09	46.96	67.01	98.07	159.98	254.37	454.61	21.51
2014	36.63	47.66	68.02	99.54	162.38	258.19	461.43	21.83
2015	38.10	49.57	70.74	103.52	168.88	268.52	479.89	22.70
2016	39.24	51.06	72.86	106.63	173.95	276.58	494.29	23.38
2017	41.59	54.12	77.23	113.03	184.39	293.17	523.95	24.78
2018	44.10	67.33	125.36	195.01	380.73	589.67	1,170.06	*Variable
2019	46.75	71.37	132.88	206.71	403.57	625.05	1,242.26	*Variable
2020	50.49	77.08	143.51	223.25	435.86	675.05	1,339.48	*Variable

* Standby rates are based on meter size

For more information on the District's rate structure, visit www.fpud.com

Source: Fallbrook Public Utility District

Table #7 - Monthly Water Service Charge (Ag/Gov) (\$/month)

Fiscal Year	3/4" Meter	1" Meter	1 ½" Meter	2" Meter	3" Meter	4" Meter	6" Meter	Standby
2011	\$ 43.37	\$ 57.26	\$ 82.77	\$ 122.31	\$ 201.26	\$ 312.70	\$ 563.53	\$ 20.78
2012	43.37	57.26	82.77	122.31	201.26	312.70	563.53	20.78
2013	44.45	58.69	84.84	125.37	206.29	320.52	57.62	21.51
2014	44.89	59.28	85.69	126.62	208.35	323.73	583.40	21.83
2015	44.89	59.28	85.69	126.62	208.35	323.73	583.40	21.83
2016	46.24	61.06	88.26	130.42	214.60	333.44	600.90	23.38
2017	49.01	64.72	93.56	138.25	227.48	353.45	636.95	24.78
2018	44.10	67.33	125.36	195.01	380.73	589.67	1,170.06	*Variable
2019	46.75	71.37	132.88	206.71	403.57	625.05	1,242.26	*Variable
2020	50.49	77.08	143.51	223.25	435.86	675.05	1,339.48	*Variable

* Standby rates are based on meter size

For more information on the District's rate structure, visit www.fpud.com

Source: Fallbrook Public Utility District

Table #8 - Monthly Water Capital Improvement Charge (CIC) (\$/month)

Fiscal Year	3/4" Meter	1" Meter	1 ½" Meter	2" Meter	3" Meter	4" Meter	6" Meter	Standby
2011	\$ 3.20	\$ 4.40	\$ 6.40	\$ 10.00	\$ 16.80	\$ 26.40	\$ 48.00	\$ 1.92
2012	3.29	4.52	6.58	10.28	\$17.27	27.14	49.35	1.97
2013	4.00	5.50	8.00	12.50	21.00	33.00	60.00	2.40
2014	8.00	11.00	16.00	25.00	42.00	66.00	120.00	4.80
2015	8.59	11.81	17.18	26.84	45.10	70.87	128.85	5.15
2016	9.06	12.46	18.12	28.31	47.57	74.75	135.90	5.44
2017	9.45	12.99	18.90	29.53	49.61	77.96	141.75	5.67
2018	8.58	14.30	28.60	45.76	91.52	143.00	286.00	*Variable
2019	9.12	15.20	30.40	48.64	97.29	152.01	304.02	*Variable
2020	9.47	15.78	31.56	50.49	100.98	157.79	315.57	*Variable

* Standby rates are based on meter size

For more information on the District's rate structure, visit www.fpud.com

Source: Fallbrook Public Utility District

Table #9 - Sewer Rates by Customer Class (2011 - 2020)

	2011	2012	2013	2014	2015	2016	2017	2018 ⁽¹⁾	2019 ⁽¹⁾	2020 ⁽¹⁾
Fixed Rates (by meter size) (\$/month)										
3/4"	\$ 12.15	\$ 12.15	\$ 12.69	\$13.19	\$ 14.10	\$ 14.23	\$ 16.12	B Y	B Y	B Y
1"	18.33	18.33	19.23	19.95	21.23	21.55	24.01			
1 1/2"	33.79	33.79	35.59	36.86	39.06	39.86	43.75			
2"	52.35	52.35	55.23	57.15	60.46	61.84	67.42	E D U	E D U	E D U
3"	95.63	95.63	101.03	104.49	110.38	113.14	122.67			
4"	157.48	157.48	166.47	172.12	181.70	186.36	201.60			
6"	312.08	312.08	330.06	341.20	359.99	369.49	398.91	\$9.28/ EDU	\$9.70/ EDU	\$10.14/ EDU
Billable Flow Rates ⁽²⁾ (\$/Kgal)										
Single Family Residence, Ag Domestic, Multi - Family	\$ 5.88	\$ 6.72	\$ 7.64	\$ 7.64	\$ 7.64	\$ 8.21	\$ 8.77	\$ 9.44	\$ 9.86	\$ 10.32
Low -Strength Commercial, Schools, Churches	8.81	10.09	11.54	11.54	11.54	12.35	13.27	9.37	9.79	10.25
Medium Strength Commercial	8.81	10.09	11.54	11.54	11.54	12.35	13.27	11.57	12.09	12.65
High Strength Commercial	14.67	16.83	19.35	19.35	19.35	20.63	22.28	14.44	15.09	15.77

Notes:

(1) - Rates switched from fiscal year to calendar year January 1, 2018.

(2) - Billable flow rates are calculated based upon water usage adjusted for outdoor use.

Source: Fallbrook Public Utility District

Table #10 - Monthly Sewer Capital Improvement Charge (CIC) (\$/month)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Per EDU	N/A	N/A	\$ 8.00	\$ 10.00	\$ 10.44	\$ 10.70	\$ 10.84	\$ 11.16	\$ 11.53	\$ 11.62

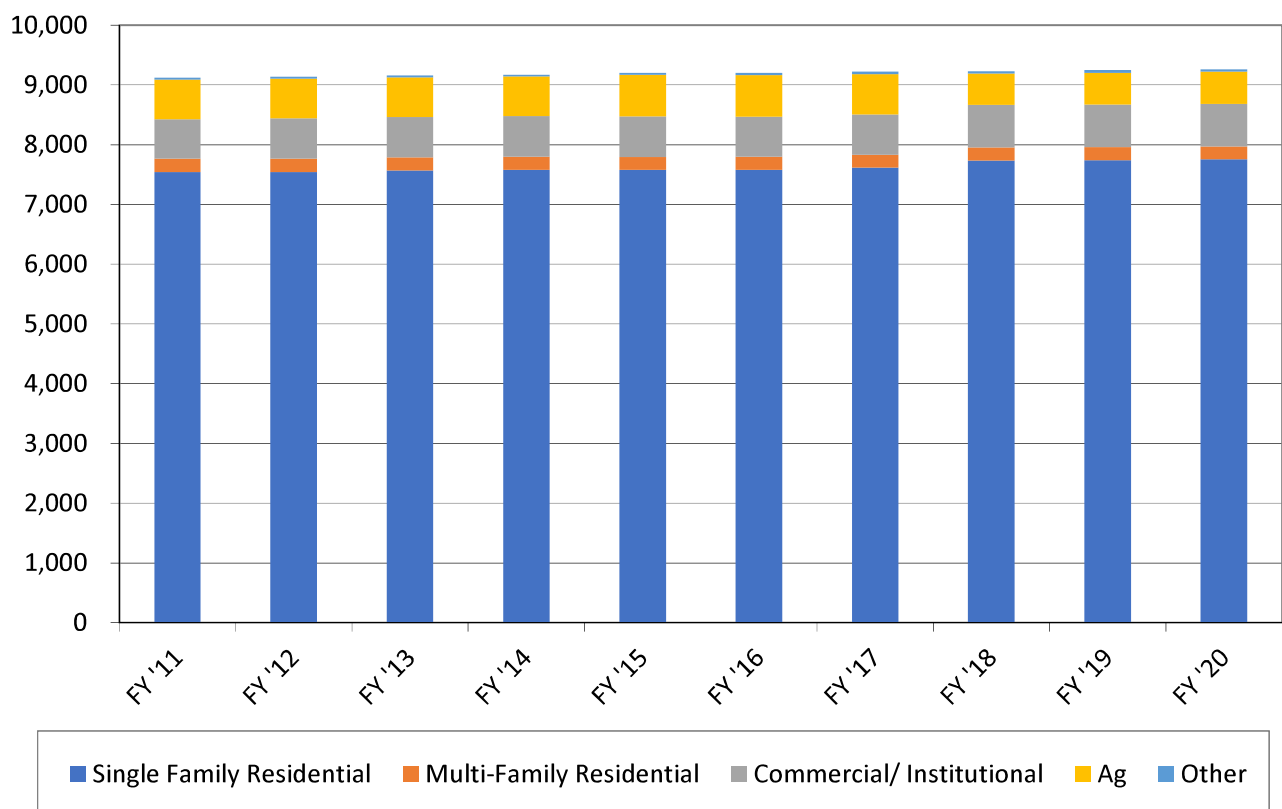
Source: Fallbrook Public Utility District

Table #11 - Number of Water Customers by Type

As of June 30	Single Family Residential	Multi-Family Residential	Commercial/ Institutional	Ag	Other	Total
2011	7,540	223	663	666	28	9,120
2012	7,545	219	678	667	29	9,138
2013	7,569	217	678	663	31	9,158
2014	7,582	217	680	660	32	9,171
2015	7,581	217	679	695	33	9,205
2016	7,582	217	671	699	37	9,206
2017	7,617	217	673	674	38	9,219
2018	7,735	218	711	529	40	9,233
2019	7,742	218	713	533	45	9,251
2020	7,755	216	712	535	41	9,259

Source: Fallbrook Public Utility District

Chart #3 - Number of Water Customers by Type



Source: Fallbrook Public Utility District

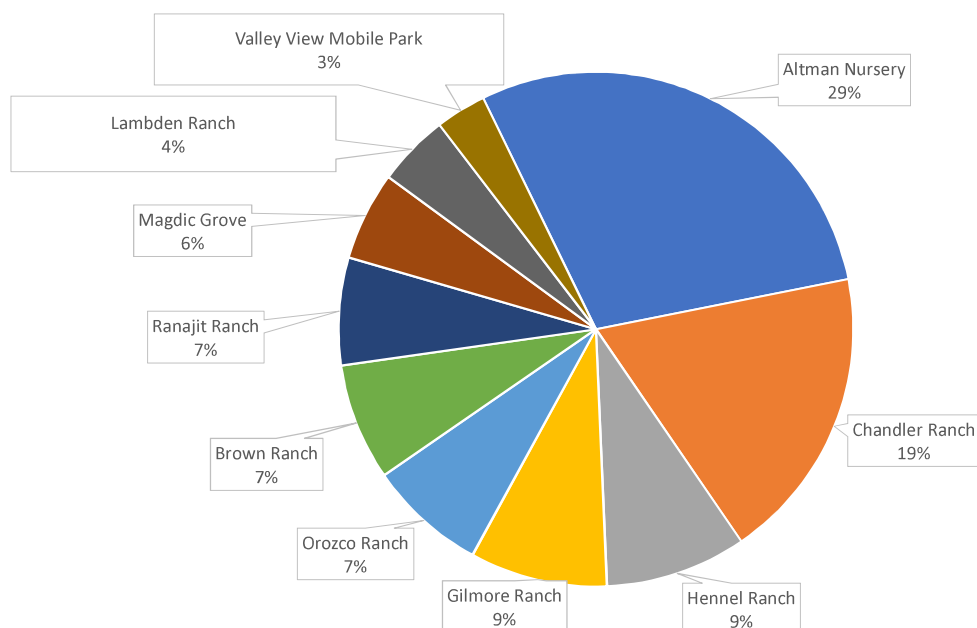
Table #12 - Top Ten Water Customers

Fiscal Year 2011		
Customer	Annual Usage (Kgal)	Percent of Total
Ross Ranch	115,181	3.30%
Sparrow Hawk Ranch	51,325	1.47%
Chandler Ranch	47,293	1.36%
Magdic Grove	29,601	0.85%
Color Spot Nursery	29,432	0.84%
ACW Ranch	25,807	0.74%
Serafina Holdings	25,065	0.72%
Hennel Ranch	22,676	0.65%
Lilac 124 Inc	22,438	0.64%
Brown Ranch	21,167	0.61%
Total Top 10 Customers	389,985	11.18%
Total All Other Water Customers	3,098,000	88.82%
Total Water Consumed	3,487,985	100.00%

Fiscal Year 2020		
Customer	Annual Usage (Kgal)	Percent of Total
Altman Nursery	87,478	3.68%
Chandler Ranch	55,696	2.34%
Hennel Ranch	26,708	1.12%
Gilmore Ranch	25,953	1.09%
Orozco Ranch	22,309	0.94%
Brown Ranch	22,100	0.93%
Ranajit Ranch	20,309	0.85%
Magdic Grove	16,735	0.70%
Lambden Ranch	13,562	0.57%
Valley View Mobile Park	9,598	0.40%
Total Top 10 Customers	300,448	12.62%
Total All Other Water Customers	2,079,731	87.38%
Total Water Consumed	2,380,179	100.00%

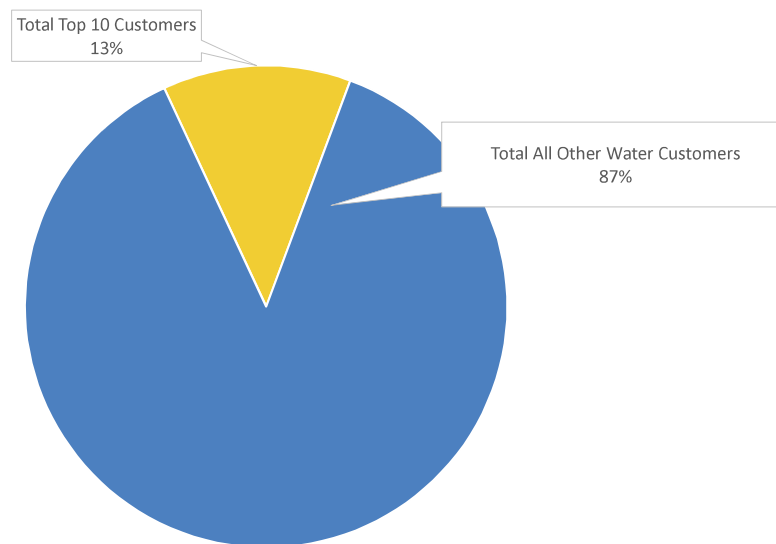
Source: Fallbrook Public Utility District

Chart #4 - Top Ten Water Customers and their Relative Consumption Fiscal Year 2020



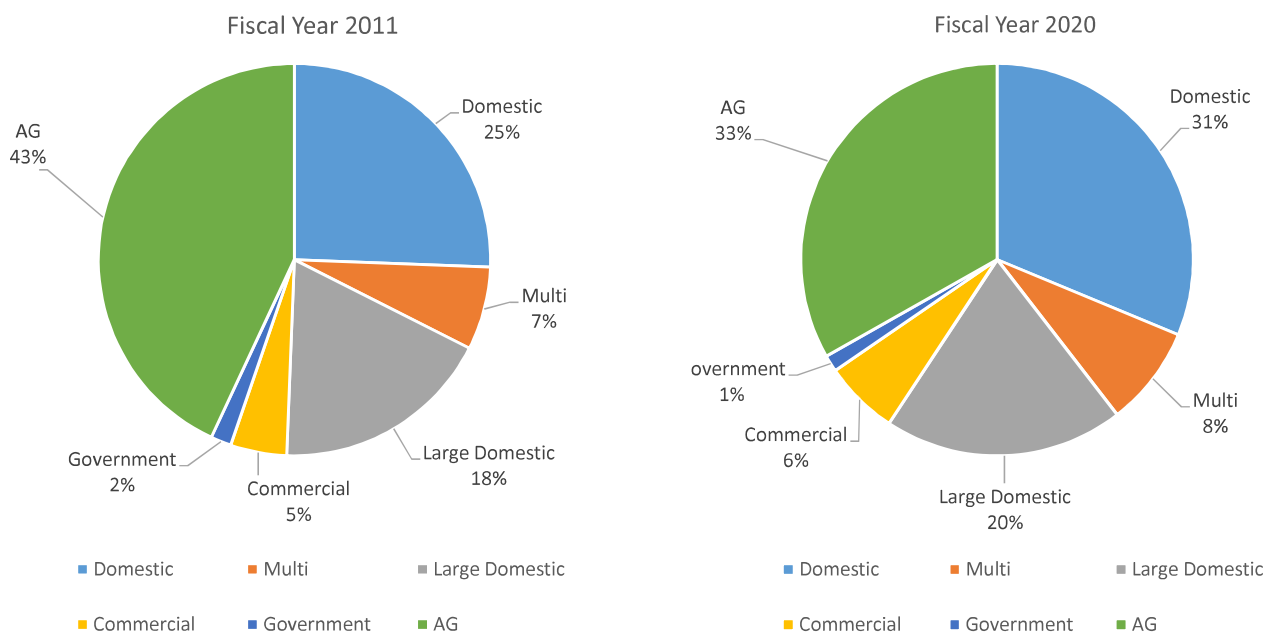
Source: Fallbrook Public Utility District

Chart #5 - Total Water Consumed Fiscal Year 2020



Source: Fallbrook Public Utility District

Chart #6 - Breakdown of Water Sales by Customer Class for Fiscal Year 2011 vs Fiscal Year 2020



Source: Fallbrook Public Utility District

Table #13 - Water System

Fiscal Year	Miles of Water Mains	Service Connections	Annual Production (G)	Average Daily Production (gpd)
2011	268.38	9,124	3,863,212,430	10,584,144
2012	268.89	9,130	4,201,053,710	11,509,736
2013	268.89	9,142	4,159,247,155	11,395,198
2014	268.94	9,154	4,178,179,040	11,447,066
2015	268.98	9,166	3,327,254,350	9,115,765
2016	269.11	9,197	3,235,951,180	8,865,620
2017	269.11	9,211	3,114,930,490	8,534,056
2018	269.11	9,244	3,287,934,350	9,008,039
2019	269.29	9,253	2,684,556,048	7,354,948
2020	269.36	9,262	2,602,343,841	7,129,709

Source: Fallbrook Public Utility District

Table #14 - Water System Total Production⁽¹⁾

Fiscal Year	Total Used/Prod. (AF)	HCF
2011	11,855.80	5,164,386.48
2012	12,892.60	5,616,016.56
2013	12,764.30	5,560,129.08
2014	12,822.40	5,585,437.44
2015	10,211.00	4,447,911.60
2016	9,930.80	4,325,856.48
2017	9,559.40	4,164,074.64
2018	10,090.30	4,395,334.68 *
2019	8,238.60	3,588,734.16 *
2020	7,986.30	3,478,832.28

Note: (1) - Total Production before system losses.

*FY 2019 CAFR had incorrect data, this is updated data.

Source: Fallbrook Public Utility District

Table #15 - Sewer System

Fiscal Year	Miles of Sewer Lines	Service Connections	Annual Sewerage (G)	Daily Sewerage (GD)
2011	78.53	4,975	636,329,979.08	1,743,369.81
2012	78.62	4,994	609,826,887.99	1,670,758.60
2013	78.62	5,008	557,909,048.16	1,528,517.94
2014	78.62	5,028	540,541,189.86	1,480,934.77
2015	78.64	5,034	562,027,804.80	1,539,802.20
2016	78.64	5,044	499,860,321.77	1,369,480.33
2017	78.64	5,049	507,140,810.66	1,389,426.88
2018	78.64	5,049	486,337,179.41	1,332,430.63
2019	78.70	5,004	556,424,471.00	1,524,450.00
2020	79.14	5,011	539,782,514.55	1,478,856.20

Source: Fallbrook Public Utility District

Table #16 - Sewer System Influent Flow

Fiscal Year	Total Used/Prod. (AF)
2011	1,985.67
2012	1,968.83
2013	1,883.86
2014	1,873.30
2015	1,997.62
2016	1,639.42
2017	1,706.45
2018	1,592.26
2019	1,707.60
2020	1,693.60

Source: Fallbrook Public Utility District

Table #17 - Recycled Water System

Fiscal Year	Miles of Recycled Pipes	Service Connections	Used Annual Recycled Water (AF) ⁽¹⁾	Daily Usage (MGD)
2011	8.28	28	536.83	0.5
2012	8.28	28	603.50	0.5
2013	8.28	28	758.70	0.7
2014	8.28	28	746.80	0.7
2015	8.28	28	598.80	0.5
2016	10.53	29	599.83	0.5
2017	10.53	30	671.34	0.6
2018	10.53	32	740.40	0.7
2019	10.53	33	562.66	0.5
2020	10.53	30	559.89	0.5

Note: (1) - Includes water not billed at full rate

Source: Fallbrook Public Utility District

Table #18 - Recycled Water System Production

Fiscal Year	Total Prod./Disposed (AF)
2011	1952.83
2012	1871.49
2013	1712.16
2014	1658.86
2015	1724.80
2016	1534.02
2017	1556.36
2018	1492.51
2019	1617.50
2020	1656.50

Notes:

G- Gallons

GD - Gallons per Day

AF - Acre Feet

MG - Millions of Gallons

MGD - Millions of Gallons per Day

Source: Fallbrook Public Utility District

FPUD treats all water to recycled standards. This tables includes both recycled water used as well as discharged to the ocean outfall.

Table #19- Annual RW Production and WRP Influent Flow

	Recycled Water (Acre-Feet)				WRP Influent Flow (Acre-Ft)
	Annual Production	Daily Average Production	Total Used Production	Total Disposed	
2011	1,962.58	5.38	607.88	1,354.69	1,999.50
2012	1,795.23	4.92	702.99	1,092.23	1,933.72
2013	1,661.57	4.55	714.98	946.59	1,892.02
2014	1,756.49	4.81	690.15	1,066.34	1,888.80
2015	1,588.47	4.35	584.11	1,004.36	1,878.31
2016	1,489.03	4.08	694.37	794.66	1,600.40
2017	1,570.92	4.30	664.82	906.11	1,694.43
2018	1,492.51	4.09	740.39	752.12	1,592.26
2019	1,617.50	4.43	562.70	1,054.80	1,707.60
2020	1,656.50	4.54	559.90	1,096.60	1,693.60

Source: Fallbrook Public Utility District

Table #20 - Full Time Equivalent (FTE) Employees by Function

Fiscal Year	Water Services	Wastewater Services	Recycled Water Services	General & Administrative	Total FTE Employees
2011	23	15	5	.8	71.8
2012	23	14	5	29.8	71.8
2013	22	14	6	28.8	70.8
2014	21	13	6	27.8	67.8
2015	21	13	5	28.8	67.8
2016	20	13	5	2 .8	66.8
2017	23	12	5	27.8	67.8
2018	24	15.2	2.8	25.8	67.8
2019	24	15.2	2.8	25.8	67.8
2020	24	15.2	2.8	25.8	67.8

Source: Fallbrook Public Utility District

Table #21 -Assessed Valuation of Taxable Property

Fiscal Year	Secured				Unsecured		Total Assessed Value
	Water		Sewer		Water	Sewer	
	Local Assessed	State Assessed	Local Assessed	State Assessed			
2011	\$ 3,037,269,947	\$ 225,000	\$ 1,781,731,084	\$ 225,000	\$ 42,343,299	\$ 37,141,389	\$ 4,898,935,719
2012	3,023,254,725	225,000	1,783,734,000	225,000	39,028,848	33,883,225	4,880,350,798
2013	3,005,131,868	225,000	1,773,732,093	225,000	40,228,753	35,613,386	4,855,156,100
2014	3,058,914,090	-	1,811,990,591	-	39,761,073	34,916,821	4,945,582,575
2015	3,234,556,718	-	1,928,060,834	-	40,480,476	35,184,912	5,238,282,940
2016	3,390,367,447	-	2,021,437,198	-	37,440,559	32,152,307	5,481,397,511
2017	3,518,846,961	-	2,098,501,032	-	36,135,611	31,163,876	5,684,647,480
2018	3,709,470,372	-	2,220,524,962	-	36,271,614	31,902,804	3,989,169,752
2019	3,895,955,738	-	2,337,209,037	-	41,211,234	35,075,356	6,309,451,365
2020	4,078,331,287	-	2,463,512,540	-	41,515,562	35,305,514	6,618,664,903

Source: County of San Diego, Office of the Auditor & Controller

Table #22 -Property Tax

Fiscal Year	Current Year Levy ⁽¹⁾			Revenues Collected ⁽²⁾			Uncollected Collected			Percent Uncollected
	Water	Sewer	Total	Water	Sewer	Total	Water	Sewer	Total	
2011	\$ 865,466	\$ 769,673	\$1,635,140	\$ 853,568	\$ 759,066	\$ 1,612,634	\$ 11,898	\$10,607	\$ 22,506	1.4%
2012	859,279	769,708	1,628,987	848,048	758,639	1,606,687	11,230	11,069	22,300	1.4%
2013	866,702	776,960	1,643,662	855,046	766,457	1,621,503	11,656	10,504	22,159	1.3%
2014	887,378	798,786	1,686,164	874,729	787,339	1,662,068	12,649	11,447	24,096	1.4%
2015	933,206	847,121	1,780,327	921,440	836,401	1,757,840	11,766	10,721	22,487	1.3%
2016	982,997	890,717	1,873,715	970,998	879,769	1,850,767	11,999	10,949	22,948	1.2%
2017	1,022,747	927,792	1,950,539	1,009,595	915,788	1,925,384	13,151	12,004	25,155	1.3%
2018	1,072,468	978,636	2,051,105	1,060,447	967,619	2,028,066	12,021	11,017	23,039	1.1%
2019	1,122,771	1,028,393	2,151,164	1,108,272	1,015,057	2,123,329	14,499	13,336	27,835	1.3%
2020	1,169,224	1,079,727	2,248,951	1,154,850	1,066,408	2,221,258	14,374	13,319	27,693	1.2%

Notes:

(1) - Total levy including penalties before administrative fees.

(2) - Amount before administrative and other fees deducted.

Source: County of San Diego, Office of the Auditor & Controller

Table #23 -Pledged-Revenue Debt Service Coverage Ratio

Fiscal Year	Total Operating Revenues	Total Operating Expenses ⁽¹⁾	Non-Operating Revenue ⁽²⁾	Net Revenue Available for Debt Service	Debt Service	Coverage Ratio	Required Coverage Level
2011	\$ 21,255,448	\$ 21,232,355	\$ 2,702,416	\$ 2,725,509	\$ 1,148,552	2.37	1.20
2012	23,661,715	23,061,268	3,268,067	3,868,514	1,567,663	2.47	1.20
2013	27,582,160	24,448,790	4,355,765	7,489,135	1,490,434	5.02	1.20
2014	28,955,183	29,357,533	5,301,618	4,899,268	1,414,198	3.46	1.20
2015	27,483,881	25,591,207	5,482,287	7,374,961	1,319,031	5.59	1.20
2016	25,356,017	24,281,233	5,898,837	6,973,621	1,302,876	5.35	1.20
2017	27,256,065	25,384,395	5,348,517	7,220,187	2,756,731	2.62	1.20
2018	29,882,022	27,626,075	5,170,901	7,426,848	2,758,501	2.69	1.20
2019	26,944,550	25,549,828	*6,246,867	6,731,623	2,760,019	2.44	1.20
2020	28,931,007	26,596,263	6,338,174	7,762,694	2,761,290	2.81	1.20

Notes:

(1) - Excludes depreciation

(2) - Excludes debt interest expenses

*Excludes one-term gain of \$9,338,297 on the sale of assets.

Source: Fallbrook Public Utility District

Table #24 Computation of Direct and Overlapping Debt (As of 06/30/2020)**2019-20 Assessed Valuation: \$4,119,846,849**

OVERLAPPING TAX AND ASSESSMENT DEBT:	Total Debt (6/30/20)	% Applicable ⁽¹⁾	District's Share of Debt (6/30/20)
Metropolitan Water District	\$ 37,300,000	0.133%	\$ 49,609
Palomar Community College District	610,657,763	3.199	19,534,942
Bonsall Unified School District	9,921,618	0.500	49,608
Fallbrook Union High School District	9,000,000	64.080	5,767,200
Fallbrook Union School District	16,674,476	67.980	11,335,309
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT			\$ 36,736,668
 DIRECT AND OVERLAPPING GENERAL FUND DEBT:			
San Diego County General Fund Obligations	231,350,000	0.741%	1,714,304
San Diego County Pension Obligation Bonds	456,040,000	0.741	3,379,256
San Diego County Superintendent of Schools Certificates of Participation	9,350,000	0.741	69,284
Palomar Community College District Certificates of Participation	1,675,000	3.199	53,583
Bonsall Unified School District Certificates of Participation	7,100,000	0.500	35,500
Fallbrook Public Utility District	0	100.	0
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT			\$ 5,251,927
 TOTAL DIRECT DEBT			\$ 0
TOTAL OVERLAPPING DEBT			\$ 41,988,595
 COMBINED TOTAL DEBT			\$ 41,988,595 ⁽²⁾

(1) The percentage of overlapping debt applicable to the public utility district is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of the overlapping district's assessed value that is within the boundaries of the public utility divided by the district's total taxable assessed value.

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

Ratios to 2019-20 Assessed Valuation:

Total Overlapping Tax and Assessment Debt	0.89%
Total Direct Debt	0.00%
Combined Total Debt	1.02%

Source: California Municipal Statistics Inc.

Table #25 - San Diego County Principal Employers

Fiscal Year 2011			Fiscal Year 2019*		
Employer Name	Number of Employees ⁽¹⁾	Percentage of Total County Employment	Employer Name	Number of Employees ⁽²⁾	Percentage of Total County Employment
University of California San Diego	46,300	3.30%	Naval Base San Diego	41,607	2.72%
Naval Base San Diego	45,500	3.24%	University of California, San Diego	38,749	2.53%
Sharp Healthcare	27,393	1.95%	Sharp Healthcare	18,736	1.22%
County of San Diego	15,842	1.13%	County of San Diego	18,606	1.22%
Scripps Health	14,969	1.07%	San Diego Unified School District	12,996	0.85%
San Diego Unified School District	13,830	0.99%	Scripps Health	12,348	0.81%
Qualcomm Inc.	13,730	0.98%	City of San Diego	11,598	0.76%
City of San Diego	10,509	0.75%	Qualcomm Inc.	10,300	0.67%
Kaiser Permanente San Diego	10,211	0.73%	San Diego Community College District	6,246	0.41%
UC San Diego Health	8,200	0.58%	Kaiser Permanente	5,349	0.35%
Total Top Ten County Employers	206,484	14.72%	Total Top Ten County Employers	176,535	11.54%
All Other County Employers	1,196,416	85.28%	All Other County Employers	1,353,265	88.46%
Total County Employment ⁽¹⁾	1,402,900	100.00%	Total County Employment ⁽²⁾	1,529,800	100.00%

Sources: County of San Diego; San Diego County Water Authority

Notes: (1) Numbers are based on County of San Diego Comprehensive Annual Financial Report for 2011

(2) Numbers are based on San Diego County Water Authority Comprehensive Annual Financial Report for 2020

*Data for FY 2020 not available as of publication date. Data shown is for the most recently available version.

Table #26 - Outstanding Debt, Demographic Statistics and Per Capita Statistics

Fiscal Year	District's Outstanding Long-Term Debt ⁽¹⁾		Total Outstanding Debt	Demographic Statistics				Per Capita Outstanding Debt	Per Capita Debt as a Percent of Personal Income
	Notes	Contracts		Population Estimate ⁽²⁾	Per Capita Personal Income ⁽³⁾	Unemployment Rate ⁽⁴⁾	Total Estimated Personal Income		
2011	\$ 224,814	\$ 13,386,773	\$ 13,611,587	32,107	\$ 46,531	10.7%	\$ 1,493,990,983	\$ 424	0.9%
2012	152,008	1,263,686	1,415,694	32,236	48,315	9.5%	1,557,500,647	44	0.1%
2013	77,090	13,165,083	13,242,173	32,366	49,525	8.2%	1,602,918,338	409	0.8%
2014	-	21,810,892	21,810,892	32,496	52,214	6.5%	1,696,737,036	671	1.3%
2015	-	32,389,288	32,389,288	32,626	54,822	5.3%	1,788,640,712	993	1.8%
2016	-	38,841,278	38,841,278	32,757	56,506	4.9%	1,850,987,403	1,186	2.1%
2017	-	37,101,306	37,101,306	32,889	58,380	4.2%	1,920,054,916	1,128	1.9%
2018	-	35,314,028	35,314,028	33,021	61,147	3.7%	2,019,135,087	1,069	1.7%
2019	-	33,474,377	33,474,377	33,153	63,729	3.7%	2,112,812,890	1,010	1.6%
2020	-	⁽⁵⁾ 58,912,499	58,912,499	33,286	66,278	13.8%	2,206,114,707	1,770	2.7%

Sources:

(1) - Fallbrook Public Utility District

(2) - Census Reporter

(3) - Sources: U.S. Department of Commerce, Bureau of Economic Analysis, and Federal Reserve Bank of St. Louis (FRED)

(4) - Source: U.S. Bureau of Labor Statistics

Notes:

(1) - Debt secured by District's net revenues

(2) - Historic population estimated based upon a 0.4% growth rate and the 2018 population estimate of 33,021.

(3) - Per capita personal income of for the San Diego County Region.

(4) - June 2020 unemployment rate.

(5) - Includes \$27.3 million in construction expenses/withdrawals.

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APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a brief summary of certain definitions and other provisions of the Indenture of Trust relating to the Bonds not otherwise described in the Official Statement. This summary is not intended to be definitive, and reference is made to the complete document for the terms thereof.

Definitions

Except as otherwise defined in this summary, the terms previously defined in this Official Statement have the respective meanings previously given. In addition, the following terms have the following meanings when used in this summary:

“Bond Counsel” means (a) Jones Hall, A Professional Law Corporation, or (b) any other attorney or firm of attorneys appointed by or acceptable to the District of nationally-recognized experience in the issuance of obligations the interest on which is excludable from gross income for federal income tax purposes under the Tax Code.

“Bond Law” means the provisions of Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, commencing with Section 53570 of said Code, as in effect on the Closing Date or as thereafter amended in accordance with its terms.

“Bonds” means the Series A Bonds and the Taxable Series B Bonds.

“Business Day” means a day (other than a Saturday or a Sunday) on which banks are not required or authorized to remain closed in the city in which the Office of the Trustee is located, and on which the Federal Reserve Bank system is not closed.

“Certificate of the District” means a certificate in writing signed by the President of the Board of Directors of the District, the General Manager of the District, the Assistant General Manager & Chief Financial Officer of the District or any other officer of the District duly authorized by the Board of Directors for that purpose.

“Closing Date” means the date of original issuance and delivery of the Bonds.

“Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the District relating to the authorization, issuance, sale and delivery of the Bonds and the refinancing accomplished thereby, including but not limited to printing expenses, rating agency fees, filing and recording fees, initial fees, expenses and charges of the Trustee and its counsel, fees, charges and disbursements of attorneys, financial advisor, placement agent, accounting firms, consultants and other professionals, and any other cost, charge or fee in connection with the original issuance of the Bonds and the refinancing accomplished thereby, including bond insurance premium.

“Debt Service” means, with respect to any Fiscal Year, the sum obtained by totaling the following amounts for such Fiscal Year:

- (a) the aggregate amount of principal of and interest on the Outstanding Bonds coming due and payable in such Fiscal Year;
- (b) the principal amount of all outstanding Parity Debt, if any, coming due and payable by their terms in such Fiscal Year; and
- (c) the amount of interest which would be due during such Fiscal Year on the aggregate principal amount of all outstanding Parity Debt, if any, which would be outstanding in such Fiscal Year if such Parity Debt are retired as scheduled; *provided, however*, that with respect to any Parity Debt which bears interest at an adjustable rate, such interest shall be calculated at an assumed rate equal to the average rate of interest per annum for each of the five previous whole calendar years as shown by the J. J. Kinney Index (or, if and to the extent such index is not maintained for all or any portion of such period, any similar index of variable rate interest for tax-exempt obligations selected by the District in its sole discretion).

“District” means the Fallbrook Public Utility District, a public utility district duly organized and existing under the Constitution and laws of the State of California, and any successor thereto.

“Federal Securities” means: (a) non-callable direct obligations (other than an obligation subject to variation in principal repayment) of the United States of America; (b) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by the United States of America; or (c) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by any agency or instrumentality of the United States of America when such obligations are backed by the full faith and credit of the United States of America.

“Financial Consultant” means any consultant or firm of such consultants appointed by the District and who, or each of whom: (a) is judged by the District to have experience in matters relating to the financing of wastewater systems; (b) is in fact independent and not under domination of the District; (c) does not have any substantial interest, direct or indirect, with the District; and (d) is not connected with the District as an officer or employee of the District, but who may be regularly retained to make reports to the District.

“Fiscal Year” means the period commencing on July 1 of each year and terminating on the next succeeding June 30, or such other period as may be established by the District as its official fiscal year period (written notice of which shall be given by the District to the Trustee).

“Independent Accountant” means any accountant or firm of such accountants appointed and paid by the District, and who, or each of whom (a) is in fact independent and not under domination of the District; (b) does not have any substantial interest, direct or indirect, with the District; and (c) is not connected with the District as an officer or employee of the District, but who may be regularly retained to make annual or other audits of the books of or reports to the District.

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

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

“Office” means, with respect to the Trustee, the corporate trust office of the Trustee at the address set forth in the Indenture, or at such other or additional offices as may be specified by the Trustee in writing to the District; except that with respect to presentation of Bonds for payment or for registration of transfer and exchange, such term means the office or agency of the Trustee at which, at any particular time, its corporate trust agency business is conducted.

“Outstanding”, when used as of any particular time with reference to Bonds, means all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except: (a) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (b) Bonds with respect to which all liability of the District has been discharged in accordance with the Indenture; (c) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to the Indenture; and (d) Bonds which are required to be disregarded and not deemed Outstanding under the Indenture.

“Owner”, when used with respect to any Bond, means the person in whose name the ownership of such Bond is registered on the Registration Books.

“Parity Debt” means (a) the 2010 Agreement and (b) all bonds, notes, loan agreements, installment sale agreements, leases or other obligations of the District payable from and secured by a pledge of and lien on any of the Net Revenues issued or incurred on a parity with the Bonds under the Indenture.

“Parity Debt Documents” means (a) the 2010 Agreement and (b) each other agreement, indenture of trust, resolution or other instrument authorizing the issuance of, or otherwise evidencing, any Parity Debt.

“Permitted Investments” means any of the following which at the time of investment are legal investments under the laws of the State of California for the moneys proposed to be invested therein:

- (a) Federal Securities;
- (b) obligations of any federal agency which either (a) represent full faith and credit of the United States of America, or (b) are rated “AA” or better by S&P;
- (c) Bank deposit products, trust funds, trust accounts, certificates of deposit (including those placed by a third party pursuant to an agreement between the District and the Trustee), overnight bank deposits, interest bearing deposits, interest bearing money market accounts, U.S. dollar denominated deposit accounts federal funds and banker’s acceptances with domestic commercial banks, which may include the Trustee, its parent holding company, if any, and their affiliates, which (i) have a rating on their short term certificates of

deposit on the date of purchase of "A" or better by S&P and Moody's, maturing no more than 360 days after the date of purchase, provided that ratings on holding companies are not considered as the rating of the bank or (ii) are fully insured by the Federal Deposit Insurance Corporation;

- (d) commercial paper which is rated at the time of purchase in the single highest classification, "A" or better by S&P and Moody's, and which matures not more than 270 calendar days after the date of purchase;
- (e) investments in a money market mutual fund, including those of an affiliate of the Trustee, rated in the highest short-term rating category by S&P, including funds for which the Trustee, its parent holding company, if any, or any affiliates or subsidiaries of the Trustee or such holding company receives and retains a fee for services provided to the fund, whether as a custodian, transfer agent, investment advisor or otherwise;
- (f) investment agreements with financial institutions whose long-term general credit rating is "AA-" or better from S&P, by the terms of which the Trustee may withdraw funds if such rating falls below "AA-"; and
- (g) the Local Agency Investment Fund of the State of California, created under Section 16429.1 of the California Government Code, to the extent the Trustee is authorized to register such investment in its name.

"Rate Stabilization Fund" means the fund by that name established and held by the District under the Indenture.

"Registration Books" means the books maintained by the Trustee under the Indenture for the registration and transfer of ownership of the Bonds.

"Request of the District" means a request in writing signed by the President of the Board of Directors of the District, the General Manager of the District, the Assistant General Manager & Chief Financial Officer of the District or any other officer of the District duly authorized by the Board of Directors for that purpose.

"Securities Depositories" means DTC; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories as the District may designate in a Request of the District delivered by the District to the Trustee.

"SRF Loan" the Project Finance Agreement (Agreement No. 12-807-550), between the District and the State Water Resources Control Board, dated November 2, 2012, as amended.

"State Loans" means loans secured by a pledge of Net Revenues of the Wastewater System and incurred by the District to finance improvements to the Wastewater System.

“S&P” means S&P Global Ratings, a division of Standard & Poor’s Financial Services LLC, and its successors and assigns.

“Supplemental Indenture” means any indenture, agreement, resolution or other instrument duly adopted or executed in accordance with the Indenture.

“Tax Code” means the Internal Revenue Code of 1986 as in effect on the Closing Date or as it may be amended to apply to obligations issued on the Closing Date, together with applicable temporary and final regulations promulgated, and applicable official public guidance published, under said Code.

“2010 Agreement” means the Installment Sale Agreement, dated as of November 1, 2010, between the District and California Alternative Energy and Advanced Transportation Financing Authority.

Establishment of Funds and Accounts; Flow of Funds

Costs of Issuance Fund. A portion of the proceeds of the Bonds will be deposited by the Trustee in the Costs of Issuance Fund on the Closing Date. The moneys in the Costs of Issuance Fund will be disbursed to pay costs of issuing the Bonds and other related financing costs from time to time upon receipt of written requests of the District. On March 1, 2021, or upon the earlier request of the District, all amounts remaining in the Costs of Issuance Fund will be transferred by the Trustee to the Debt Service Fund to be applied to pay a portion of the interest next coming due and payable on the Bonds.

Deposit and Application of Revenues. The deposit and application of Revenues to the Wastewater Fund and other funds under the Indenture is set forth in the main body of the Official Statement.

Rate Stabilization Fund

A description of the Rate Stabilization Fund is set forth in the main body of the Official Statement.

Investment of Funds

All moneys in the Wastewater Fund may be invested by the District from time to time in any securities in which the District may legally invest funds subject to its control. All moneys in any of the funds or accounts held by the Trustee under the Indenture will be invested by the Trustee solely in Permitted Investments as directed by the District in advance of the making of such investments. The Trustee may rely conclusively upon the investment direction of the District as to the suitability and legality of the directed investments.

Obligations purchased as an investment of moneys in any fund or account will be deemed to be part of such fund or account. All interest or gain derived from the investment of amounts in any of the funds or accounts held by the Trustee under the Indenture will be retained in the respective fund or account from which such investment was made.

Parity Debt; State Loans

A description of the requirements for the District to issue Parity Debt and State Loans is set forth in the main body of the Official Statement.

Rates and Charges

Under the Indenture, the District makes certain covenants with respect to rates and charges. These covenants are described in the main body of the Official Statement.

Sale or Eminent Domain of Wastewater System

The District covenants that the Wastewater System will not be encumbered, sold, leased, pledged, any charge placed thereon, or otherwise dispose of, as a whole or substantially as a whole if such encumbrance, sale, lease, pledge, charge or other disposition would materially impair the ability of the District to pay the principal of or interest on the Bonds or any Parity Debt, or would materially adversely affect its ability to comply with the terms of the Indenture or any Parity Debt Documents. The District will not enter into any agreement which impairs the operation of the Wastewater System or any part of it necessary to secure adequate Revenues to pay the Bonds and any Parity Debt, or which otherwise would impair the rights of the Bond Owners with respect to the Net Revenues.

The Net Proceeds received as awards as a result of the taking of all or any part of the Wastewater System by the lawful exercise of eminent domain, if and to the extent that such right can be exercised against such property of the District, will at the written direction of the District either (a) be used for the acquisition or construction of improvements and extension of the Wastewater System, or (b) be applied on a pro rata basis to redeem the Bonds or any Parity Debt in accordance with the Indenture and the related Parity Debt Documents.

Insurance; Net Proceeds

A description of the District's covenants with respect to insurance on the Wastewater System is set forth in the main body of the Official Statement.

Additional Covenants of the District

Payment of Bonds. The District agrees to punctually pay or cause to be paid the interest and principal to become due with respect to all of the Bonds in strict conformity with the terms of the Bonds and of the Indenture, and will faithfully observe and perform all of the conditions, covenants and requirements of the Indenture.

Operation of Wastewater System. The District agrees to operate the Wastewater System in an efficient and economical manner and to operate, maintain and preserve the Wastewater System in good repair and working order.

Records and Accounts. The District agrees that it will keep proper books of record and accounts of the Wastewater System, separate from all other records and accounts, in which complete and correct entries shall be made of all transactions relating to the Wastewater System. Said books shall, upon reasonable request, be subject to the inspection of the Trustee and the Owners of not less than 10% of the Outstanding Bonds

or their representatives authorized in writing. The District further agrees that it will cause the books and accounts of the Wastewater System to be audited annually by an Independent Accountant and will make available for inspection by the Bond Owners at the Office of the Trustee, upon reasonable request, a copy of the report of such Independent Accountant.

Tax Covenants.

Generally. The District shall not take any action or permit to be taken any action within its control which would cause or which, with the passage of time if not cured would cause, interest on the Bonds to become includable in gross income for federal income tax purposes.

Private Activity Bond Limitation. The District shall assure that the proceeds of the Bonds are not used in a manner which would cause the Bonds to become “private activity bonds” within the meaning of section 141(a) of the Tax Code or to meet the private loan financing test of Section 141(c) of the Tax Code.

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

No Arbitrage. The District shall not take, or permit or suffer to be taken by the Trustee or otherwise, any action with respect to the Bond proceeds which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the Closing Date, would have caused the Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Tax Code.

Rebate of Excess Investment Earnings. The District shall pay when due an amount equal to excess investment earnings to the United States of America in such amounts, at such times and in such manner as may be required under the Tax Code, such payments to be made from any source of legally available funds of the District.

Amendment of Indenture

The Indenture may be modified or amended at any time by a supplemental indenture with the written consents of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, exclusive of Bonds disqualified. No such modification or amendment may (a) extend the maturity of or reduce the interest rate on any Bond or otherwise alter or impair the obligation of the District to pay the principal or interest at the time and place and at the rate and in the currency provided therein of any Bond without the express written consent of the Owner of such Bond, (b) permit the creation by the District of any mortgage, pledge or lien upon the Revenues or the Net Revenues superior to or on a parity with the pledge and lien created for the benefit of the Bonds (except as expressly permitted by the Indenture), or reduce the percentage of Bonds required for the written consent to any such amendment or modification, or (c) without its written consent thereto, modify any of the rights or obligations of the Trustee.

The Indenture may also be modified or amended at any time by a supplemental indenture, without the consent of any Bond Owners, to the extent permitted by law, but only for any one or more of the following purposes:

- (a) to add to the covenants and agreements of the District contained in the Indenture, other covenants and agreements thereafter to be observed, or to limit or surrender any rights or power therein reserved to or conferred upon the District; or
- (b) to cure any ambiguity, or to cure, correct, supplement any defective provision contained in the Indenture, or in any other respect whatsoever as the District deems necessary or desirable, provided under any circumstances that such modifications or amendments do not materially adversely affect the interests of the Owners of the Bonds, in the opinion of Bond Counsel filed with the District and the Trustee; or
- (c) to provide for the issuance of any Parity Debt, and to provide the terms and conditions under which such Parity Debt may be issued, including but not limited to the establishment of special funds and accounts relating to such Parity Debt and any other provisions relating solely to such Parity Debt; or
- (d) to amend any provision of the Indenture to assure the exclusion from gross income of interest on the Bonds for federal income tax purposes under the Tax Code, in the opinion of Bond Counsel filed with the District and the Trustee.

Events of Default

Events of Default Defined. The following events constitute events of default under the Indenture:

- (a) Failure to pay any installment of the principal of any Bonds when due, whether at maturity as therein expressed, by acceleration or otherwise.
- (b) Failure to pay any installment of interest on the Bonds when due.
- (c) Failure by the District to observe and perform any of the other covenants, agreements or conditions on its part contained in the Indenture or in the Bonds, if such failure has continued for a period of 30 days after written notice thereof, specifying such failure and requiring the same to be remedied, has been given to the District by the Trustee; *provided, however*, if in the reasonable opinion of the District the failure stated in the notice can be corrected, but not within such 30-day period, such failure shall not constitute an Event of Default if the District institutes corrective action within such 30-day period and thereafter diligently and in good faith cures the failure within 60 days after the written notice of default thereof.
- (d) The District commences a voluntary bankruptcy case under Title 11 of the United States Code or any substitute or successor statute.

Remedies. If an Event of Default occurs and is continuing, the Trustee may, and at the written direction of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding the Trustee shall (a) for any default listed in (a), (b) or (d) above only, declare the principal of the Bonds, together with the accrued interest thereon, to be due and payable immediately, and upon any such declaration the same will become immediately due and payable, anything in the Indenture or in the Bonds to the contrary notwithstanding, and (b) subject to the provisions of the Indenture, exercise any other remedies available to the Trustee and the Bond Owners in law or at equity to enforce the rights of the Bond Owners under the Indenture, including the right, by action brought pursuant to the California Code of Civil Procedure, or as otherwise provided by law, to obtain the issuance of a writ of mandamus enforcing the duty of the District to take all steps necessary for the payment of principal of and interest on the Bonds, and other amounts due thereunder.

Immediately upon becoming aware of the occurrence of an Event of Default, but in no event later than 5 Business Days following becoming aware of such occurrence, the Trustee shall give notice of such Event of Default to the District by telephone confirmed in writing. Such notice shall also state whether the principal of the Bonds has been declared to be or have immediately become due and payable. With respect to any Event of Default described in clauses (a) or (b) above the Trustee shall, and with respect to any Event of Default described in clause (c) above the Trustee in its sole discretion may, also give such notice to the Owners, which shall include the statement that interest on the Bonds shall cease to accrue from and after the date, if any, on which the Trustee declares the Bonds to become due and payable under the preceding paragraph (but only to the extent that principal and any accrued, but unpaid, interest on the Bonds is actually paid on such date).

This provision, however, is subject to the condition that if, at any time after the principal of the Bonds has been so declared due and payable, and before any judgment or decree for the payment of the moneys due has been obtained or entered, the District shall deposit with the Trustee a sum sufficient to pay all principal on the Bonds matured prior to such declaration and all matured installments of interest (if any) upon all the Bonds, with interest on such overdue installments of principal and interest at an interest rate of 10% per annum, and the reasonable fees and expenses of the Trustee, including fees and expenses of its attorneys, and any and all other defaults known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) has been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate has been made therefor, then, and in every such case, the Owners of at least a majority in aggregate principal amount of the Bonds then Outstanding, by written notice to the District and to the Trustee, may, on behalf of the Owners of all of the Bonds, rescind and annul such declaration and its consequences. However, no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

Application of Funds Upon Event of Default or Acceleration. All amounts received by the Trustee under any right given or action taken by the Trustee under the provisions of the Indenture will be applied by the Trustee as follows and in the following order:

- (a) *First*, to the payment of any fees, costs and expenses incurred by the Trustee to protect the interests of the Owners of the Bonds; payment of the fees, costs and expenses of the Trustee (including fees and expenses of its counsel, including any allocated costs of internal

counsel) incurred in and about the performance of its powers and duties under the Indenture and the payment of all fees, costs and expenses owing to the Trustee under the Indenture, together with interest on all such amounts advanced by the Trustee at the maximum rate permitted by law; and

- (b) *Second*, to the payment of the whole amount then owing and unpaid upon the Bonds for interest and principal, with interest on such overdue amounts at the respective rates of interest borne by those Bonds, and in case such moneys shall be insufficient to pay in full the whole amount so owing and unpaid upon the Bonds, then to the payment of such interest, principal and interest on overdue amounts without preference or priority among such interest, principal and interest on overdue amounts ratably to the aggregate of such interest, principal and interest on overdue amounts.

Power of Trustee to Control Proceedings. If the Trustee, upon the happening of an Event of Default, takes any action, by judicial proceedings or otherwise, in the performance of its duties hereunder, whether upon its own discretion, upon the request of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, it has full power, in the exercise of its discretion for the best interests of the Owners of the Bonds, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action and the Trustee has been indemnified to its satisfaction. The Trustee may not, unless there no longer continues an Event of Default, discontinue, withdraw, compromise or settle, or otherwise dispose of any litigation pending at law or in equity, if at the time there has been filed with it a written request signed by the Owners of a majority in principal amount of the Outstanding Bonds under the Indenture opposing such discontinuance, withdrawal, compromise, settlement or other disposal of such litigation. Nothing in the Indenture shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Owner any plan of reorganization, arrangement, adjustment, or composition affecting the Bonds or the rights of any Owner thereof, or to authorize the Trustee to vote in respect of the claim of any Owner in any such proceeding without the approval of the Owners so affected.

Limitation on Bond Owners' Right to Sue. No Owner of any Bond has the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Indenture, unless: (a) said Owner has previously given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of a majority in aggregate principal amount of all the Bonds then Outstanding have requested the Trustee in writing to exercise the powers hereinbefore granted or to institute such action, suit or proceeding in its own name; (c) said Owners have tendered to the Trustee indemnity reasonably acceptable to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee has failed to comply with such request for a period of 60 days after such written request has been received by, and said tender of indemnity has been made to, the Trustee.

Defeasance of Bonds and Discharge of Indenture

If the District pays and discharges the entire indebtedness on any Bonds in any one or more of the following ways: (a) by paying or causing to be paid the principal of and interest on such Bonds, as and when the same become due and payable; (b) subject to

the conditions set forth below, by irrevocably depositing with the Trustee or an escrow bank, in trust, at or before maturity, an amount of cash which, together with the available amounts then on deposit in the funds and accounts established under the Indenture, in the opinion or report of an Independent Accountant is fully sufficient to pay such Bonds, including all principal and interest; (c) subject to the conditions set forth below, by irrevocably depositing with the Trustee or an escrow bank, Federal Securities in such amount as an Independent Accountant determines will, together with the interest to accrue thereon and available moneys then on deposit in any of the funds and accounts established under the Indenture, be fully sufficient to pay and discharge the indebtedness on such Bonds (including all principal and interest) at or before maturity; or (d) by purchasing such Bonds prior to maturity and tendering such Bonds to the Trustee for cancellation;

then, at the election of the District, and notwithstanding that any such Bonds have not been surrendered for payment, the pledge of the Net Revenues and other funds provided for in the Indenture and all other obligations of the Trustee and the District under the Indenture with respect to such Bonds shall cease and terminate, except only: the obligations of the District under the Indenture related to its tax covenants, the obligation of the Trustee to transfer and exchange Bonds under the Indenture, the obligation of the District to pay or cause to be paid to the Owners of such Bonds, from the amounts so deposited with the Trustee, all sums due thereon, and the obligations of the District to compensate and indemnify the Trustee under the Indenture.

To accomplish defeasance pursuant to paragraphs (b) or (c) above, the District shall cause to be delivered (a) a report of an Independent Accountant verifying the sufficiency of the escrow established to pay the Bonds in full on the maturity date ("Verification"), (b) an escrow agreement, and (c) an opinion of Bond Counsel to the effect that the Bonds are no longer "Outstanding" under the Indenture; each Verification and defeasance opinion to be acceptable in form and substance, and addressed, to the District and Trustee.

In the case of a defeasance or payment of all of the Bonds Outstanding in accordance with the foregoing, the Trustee shall pay all amounts held by it in any funds or accounts under the Indenture, which are not required for said purpose or for payment of amounts due the Trustee, to the District.

Bonds shall be deemed "Outstanding" under the Indenture unless and until they are in fact paid and retired or the above criteria are met.

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APPENDIX D

BOOK-ENTRY SYSTEM

The information in this Appendix D concerning DTC and its book-entry system has been obtained from sources that the District believe to be reliable, but the District take no responsibility for the accuracy thereof.

General

The Depository Trust Company ("DTC") will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each maturity of the Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has S&P Global Ratings rating of "AA+." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.org. The information on such website is not incorporated by reference herein.

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, premium, if any, and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Trustee, on a payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Trustee, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

APPENDIX E
FORM OF BOND COUNSEL OPINION

January 27, 2021

Board of Directors
Fallbrook Public Utility District
990 E Mission Road
Fallbrook, California 92028

OPINION: \$14,845,000 Fallbrook Public Utility District 2021 Wastewater Revenue Refunding Bonds, Series A and \$5,035,000 Taxable Series B

Members of the Board of Directors:

We have acted as bond counsel to the Fallbrook Public Utility District (the "District") in connection with the issuance by the District of its \$14,845,000 Fallbrook Public Utility District 2021 Wastewater Revenue Refunding Bonds, Series A (the "Series A Bonds") and its \$5,035,000 Fallbrook Public Utility District 2021 Wastewater Revenue Refunding Bonds, Taxable Series B (the "Series B Bonds," and together with the Series A Bonds, the "Bonds"), under the provisions of Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, commencing with Section 53570 of said Code (the "Bond Law") and under an Indenture of Trust dated as of January 1, 2021 (the "Indenture"), between the District and U.S. Bank National Association, as trustee, approved by a resolution of the Board of Directors of the District adopted on September 28, 2020. We have examined the Bond Law, an executed copy of the Indenture and such certified proceedings and other papers as we deem necessary to render this opinion.

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

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

1. The District is a public utility district duly organized and existing under the Constitution and laws of the State of California, with power to enter into the Indenture, to perform the agreements on its part contained therein, and to issue the Bonds.
2. The Bonds have been duly authorized, executed and delivered by the District, and are legal, valid and binding obligations of the District, payable solely from the sources provided therefor in the Indenture.

3. The Indenture has been duly approved by the District, and constitutes a legal, valid and binding obligation of the District, enforceable against the District in accordance with its terms.

4. Under the Bond Law, the Indenture establishes a valid lien on and pledge of the Net Revenues of the Wastewater System (as such terms are defined in the Indenture) for the security of the Bonds and any obligations issued on a parity therewith.

5. The interest on the Series A Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax. The opinions set forth in the preceding sentence are subject to the condition that the District comply with all requirements of the Internal Revenue Code of 1986 that must be satisfied subsequent to the issuance of the Series A Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The District has covenanted in the Indenture to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Series A Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Series A Bonds.

6. The interest on the Bonds is exempt from personal income taxation imposed by the State of California.

We express no opinion regarding other federal tax consequences arising with respect to the ownership, sale or disposition of the Bonds, or the amount, accrual or receipt of interest on the Bonds.

The rights of the owners of the Bonds and the enforceability of the Bonds and the Indenture may be subject to bankruptcy, insolvency, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and their enforcement may be subject to the exercise of judicial discretion in accordance with general principles of equity.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur. Our engagement with respect to this matter has terminated as of the date hereof.

Respectfully submitted,

A Professional Law Corporation

APPENDIX F

FORM OF CONTINUING DISCLOSURE CERTIFICATE

\$14,845,000
FALLBROOK PUBLIC UTILITY DISTRICT
2021 Wastewater Revenue Refunding Bonds,
Series A

\$5,035,000
FALLBROOK PUBLIC UTILITY DISTRICT
2021 Wastewater Revenue Refunding Bonds,
Taxable Series B

This Continuing Disclosure Certificate (this “Disclosure Certificate”) is executed and delivered by the Fallbrook Public Utility District (the “District”) in connection with the issuance of the above-referenced bonds (the “Bonds”). The Bonds are being issued under the provisions of Articles 10 and 11 of Part 1 of Division 2 of Title 5 of the California Government Code and an Indenture of Trust, dated as of January 1, 2021 (the “Indenture”), between the District and U.S. Bank National Association, as trustee.

The District covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

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

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

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

“Dissemination Agent” shall mean U.S. Bank National Association, or any successor Dissemination Agent designated by the District.

“Financial Obligation” means a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term “financial obligation” shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

“Fiscal Year” means the fiscal year of the District.

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

“MSRB” shall mean the Municipal Securities Rulemaking Board.

“Official Statement” shall mean the Official Statement relating to the Bonds, dated January 12, 2021.

“Participating Underwriter” shall mean the original purchasers of the Bonds required to comply with the Rule in connection with offering of the Bonds.

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

“State” shall mean the State of California.

SECTION 3. Provision of Annual Reports.

(a) The District shall, or shall cause the Dissemination Agent to, not later than each March 1 after the end of each Fiscal Year (presently such Fiscal Year ends June 30) or the next succeeding business day if that day is not business day, commencing with the report for the fiscal year ending June 30, 2021, which shall be due March 1, 2022, provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided, that the audited financial statements of the District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Fiscal Year changes, the District shall give notice of such change in the same manner as for a Listed Event under Section 5(b).

(b) Not later than fifteen (15) Business Days prior to said date, the District shall provide the Annual Report to the Dissemination Agent (if other than the District). If the District is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the District shall send, in a timely manner, a notice to the MSRB in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall (if the Dissemination Agent is other than the District), file a report with the District certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided to the MSRB.

SECTION 4. Content of Annual Reports. The District’s Annual Report shall contain or include by reference the following:

(a) The audited financial statements of the District for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the District’s audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

Beginning with the fiscal year ending June 30, 2021, and each fiscal year thereafter during which the Bonds are outstanding, the District shall include in its audited financial

statements a “Schedule of Operating and Non-Operating Income and Expenses” for the Wastewater Fund. The line items included in the “Schedule of Operating and Non-Operating Income and Expenses” shall correspond, to the extent applicable, to the line items included in the updates to Table 12 referred to below.

(b) An update as of the most recently ended Fiscal Year of the District to the information set forth in the following tables in the Official Statement for the most recently-completed Fiscal Year only, to the extent not included in the comprehensive annual financial report:

- Table 1 (Number and Type of Wastewater Connections)
- Table 2 (Ten Largest Customers)
- Table 3 (Historical Average Daily Flow)
- Table 5 (Monthly Sewer Service Charges)
- Table 9 (Historical Assessed Valuations – Improvement District “S”)
- Table 10 (Top Taxpayers in Improvement District “S”)
- Table 12 (Revenues, Expenses and Debt Service Coverage – for the most recently completed Fiscal Year only)

(c) Any rate increases that became effective on January 1 of the preceding the filing of the Annual Report.

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

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Indenture or its obligations in relation to the Bonds:

- (1) Principal and interest payment delinquencies;
- (2) Nonpayment related defaults, if material;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;

(6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices of determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;

(7) Modifications to the rights of Bondholders, if material;

(8) Bond calls, if material, and tender offers;

(9) Defeasances;

(10) Release, substitution, or sale of property securing repayment of the Bonds, if material;

(11) Rating changes;

(12) Bankruptcy, insolvency, receivership or similar event of the District;

(13) Consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;

(14) Appointment of a successor or additional trustee or the change of name of a trustee, if material;

(15) Incurrence of a financial obligation of the District, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District, any of which affect security holders, if material; and

(16) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the District, any of which reflect financial difficulties.

(b) If a Listed Event occurs, the District shall provide, in a timely manner and in no event in excess of ten (10) Business Days after the occurrence of such Listed Event, notice of such Listed Event with the MSRB.

SECTION 6. Termination of Reporting Obligation. The District's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the District shall give notice of such termination in the same manner as for a Listed Event under Section 5(b).

SECTION 7. Dissemination Agent. The District will serve as the initial Dissemination Agent hereunder. The District may, from time to time, appoint or engage a different Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to this Disclosure Certificate.

SECTION 8. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 9. Default. In the event of a failure of the District or the Dissemination Agent to comply with any provision of this Disclosure Certificate, the sole legal remedy of any Holder or Beneficial Owner of the Bonds or the Participating Underwriter shall be an action to compel performance. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture.

No Bondholder or Beneficial Owner may institute such action, suit or proceeding to compel performance unless they shall have first delivered to the District satisfactory written evidence of their status as such, and a written notice of and request to cure such failure, and the District shall have refused to comply therewith within a reasonable time.

SECTION 10. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the District agrees, to the extent permitted by law, to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, suit, claim, cost, damages, judgment, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees and expenses) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds. The Dissemination Agent shall be afforded the same rights, protections and immunities hereunder afforded to it as Trustee under the Indenture.

It is understood and agreed that any information that the Dissemination Agent may be instructed to file with the MSRB shall be prepared and provided to it by the District. The Dissemination Agent has undertaken no responsibility with respect to any reports, notices or disclosures provided to it under this Disclosure Certificate, and has no liability to any person, including any holder of Bonds, with respect to any such reports, notices or disclosures. The fact that the Dissemination Agent or any affiliate thereof may have any fiduciary or banking relationship with the District shall not be construed to mean that the Dissemination Agent has actual knowledge of any event or condition except as may be provided by written notice from the District.

SECTION 11. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that, in the opinion of nationally recognized bond counsel, such amendment or waiver is permitted by the Rule, taking into account any subsequent change in or interpretation of the Rule. In the event of any amendment or waiver of a provision of this Disclosure Certificate, the District shall describe such amendment in the same manner as for a Listed Event under Section 5(b). The District shall obtain the consent of

the Dissemination Agent for any amendment of the Disclosure Certificate that affects the duties, rights, protections or obligations of the Dissemination Agent.

SECTION 12. Transmission of Notices, Documents and Information.

(a) Unless otherwise required by the MSRB, all notices, documents and information provided to the MSRB shall be provided to the MSRB's Electronic Municipal Markets Access (EMMA) system, the current Internet Web address of which is *www.emma.msrb.org*.

(b) All notices, documents and information provided to the MSRB shall be provided in an electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

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

SECTION 14. Governing Law. The provisions of this Disclosure Certificate shall be governed by and construed in accordance with the laws of the State of California.

Dated: _____, 2021

FALLBROOK PUBLIC UTILITY DISTRICT

By _____
Authorized Representative

EXHIBIT A

NOTICE TO MSRB OF FAILURE TO FILE ANNUAL REPORT

Name of Obligated Party: Fallbrook Public Utility District

Name of Bond Issue: \$14,845,000 2021 Wastewater Revenue Refunding
Bonds, Series A and \$5,035,000 Taxable Series B

Date of Issuance: January 27, 2021

NOTICE IS HEREBY GIVEN that an Annual Report with respect to the above-named Bonds was not released by the District by the date required in the Continuing Disclosure Certificate. [The District anticipates that the Annual Report will be filed by _____.]

Dated: _____, 20__

Fallbrook Public Utility District

By _____

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APPENDIX G

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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MUNICIPAL BOND INSURANCE POLICY

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

BONDS: \$ _____ in aggregate principal
amount of [NAME OF TRANSACTION]
[and maturing on]

Effective Date: _____

Risk Premium: \$ _____
Member Surplus Contribution: \$ _____
Total Insurance Payment: \$ _____

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

On the later of the day on which such principal and interest becomes Due for Payment or the first Business Day following the Business Day on which BAM shall have received Notice of Nonpayment, BAM will disburse (but without duplication in the case of duplicate claims for the same Nonpayment) to or for the benefit of each Owner of the Bonds, the face amount of principal of and interest on the Bonds that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by BAM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of such principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in BAM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by BAM is incomplete, it shall be deemed not to have been received by BAM for purposes of the preceding sentence, and BAM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, any of whom may submit an amended Notice of Nonpayment. Upon disbursement under this Policy in respect of a Bond and to the extent of such payment, BAM shall become the owner of such Bond, any appurtenant coupon to such Bond and right to receipt of payment of principal of or interest on such Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under such Bond. Payment by BAM either to the Trustee or Paying Agent for the benefit of the Owners, or directly to the Owners, on account of any Nonpayment shall discharge the obligation of BAM under this Policy with respect to said Nonpayment.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent (as defined herein) are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless BAM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration) and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment made to an Owner by or on behalf of the Issuer of principal or interest that is Due for Payment, which payment has been recovered from such Owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means delivery to BAM of a notice of claim and certificate, by certified mail, email or telecopy as set forth on the attached Schedule or other acceptable electronic delivery, in a form satisfactory to BAM, from and signed by an Owner, the Trustee or the Paying Agent, which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount, (d) payment instructions and (e) the date such claimed amount becomes or became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer, the Member or any other person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

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

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

This Policy sets forth in full the undertaking of BAM and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. THIS POLICY IS ISSUED WITHOUT CONTINGENT MUTUAL LIABILITY FOR ASSESSMENT.

In witness whereof, BUILD AMERICA MUTUAL ASSURANCE COMPANY has caused this Policy to be executed on its behalf by its Authorized Officer.

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: _____
Authorized Officer

Notices (Unless Otherwise Specified by BAM)

Email:

claims@buildamerica.com

Address:

200 Liberty Street, 27th floor
New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

SPECIMEN



CALIFORNIA
ENDORSEMENT TO
MUNICIPAL BOND
INSURANCE POLICY
NO.

This Policy is not covered by the California Insurance Guaranty Association established pursuant to Article 15.2 of Chapter 1 of Part 2 of Division 1 of the California Law.

Nothing herein shall be construed to waive, alter, reduce or amend coverage in any other section of the Policy. If found contrary to the Policy language, the terms of this Endorsement supersede the Policy language.

IN WITNESS WHEREOF, BUILDAMERICA MUTUAL ASSURANCE COMPANY has caused this policy to be executed on its behalf by its Authorized Officer.

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By

Authorized Officer



Printed by: Royce Printing
www.royceprinting.com