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NEW ISSUE-FULL BOOK ENTRY **NOT RATED**

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 2014 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 imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See "TAX MATTERS" herein.

$38,505,000
WESTERN HILLS WATER DISTRICT
DIABLO GRANDE COMMUNITY FACILITIES DISTRICT NO. 1
SPECIAL TAX REFUNDING BONDS
SERIES 2014

Dated: Date of Delivery **Due: September 1, as shown below**

The $38,505,000 Western Hills Water District Diablo Grande Community Facilities District No. 1 Special Tax Refunding Bonds Series 2014 (the "2014 Bonds") are being issued by the Western Hills Water District (the "Water District") by and through its Diablo Grande Community Facilities District (the "District"). The 2014 Bonds are special tax obligations of the Water District, authorized pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, being California Government Code Section 53311, *et seq.* (the "Mello-Roos Act"), and are issued pursuant to a Fiscal Agent Agreement dated as of August 1, 2001 and supplements thereto, by and between the Water District and The Bank of New York Mellon Trust Company, N.A., as Fiscal Agent. The 2014 Bonds are secured by Special Taxes (described herein) on parity with $7,580,000 outstanding principal amount of bonds issued by the Water District in 2005. The 2014 Bonds are issued to (i) refund certain outstanding bonds previously by the District in 2001, 2002 and 2004; (ii) fund a reserve account; and (iii) to pay the costs of issuance of the 2014 Bonds. Interest on the 2014 Bonds is payable March 1, 2015, and thereafter semiannually on March 1 and September 1 of each year.

The 2014 Bonds are being issued as fully registered bonds, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("**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. See "APPENDIX H – BOOK-ENTRY SYSTEM."

The 2014 Bonds are secured by and payable, on a parity with bonds issued in 2005, from a pledge of annual Special Taxes (as defined herein) to be levied by the Water District on real property within the boundaries of the District, from the proceeds of any foreclosure actions brought following a delinquency in the payment of the Special Taxes, and from amounts held in certain funds under the Fiscal Agent Agreement, all as more fully described herein. Land within the District consists of completed homes, land under development, and unimproved land planned for a primarily residential development in an area of Stanislaus County known as "Diablo Grande" near the City of Patterson. **Unpaid Special Taxes do not constitute a personal indebtedness of the owners of the parcels within the District. In the event of delinquency, proceedings may be conducted only against the parcel of real property securing the delinquent Special Tax. There is no assurance the owners will be able to pay the Special Tax or that they will pay such Special Tax even though financially able to do so.** To provide funds for payment of the bonds previously issued and the interest thereon as a result of any delinquent installments, the Water District established Reserve Accounts from proceeds of the bonds previously issued, which accounts will also be funded as described herein and maintained for the 2014 Bonds and outstanding 2005 Bonds. See "SECURITY FOR THE BONDS."

Property in the District subject to the Special Tax is comprised of approximately 2,936 acres and currently includes completed homes, infrastructure improvements suitable for additional development, undeveloped land, two golf courses (one of which is closed and likely to be used for future home development, walking trails and other public amenities), a clubhouse and related outbuildings and improvements. The property is projected to be developed with 2,354 residential parcels and limited commercial sites, as well as the existing golf course and clubhouse and related amenities. Home construction began in 2004 and stopped in 2008 as a result of the real estate downturn and bankruptcy of the previous developer. Currently, home construction has resumed and homes are offered for sale. Most of the undeveloped land in the District is owned by World International LLC (the "Current Developer"), an entity which is not a homebuilder and intends to market residential lots to merchant homebuilders, custom homebuilders and individuals. See "THE DISTRICT."

The 2014 Bonds are subject to optional and mandatory redemption prior to maturity as described herein. See "THE 2014 Bonds — Redemption."

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE WATER DISTRICT, THE COUNTY OF STANISLAUS, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE 2014 BONDS. THE 2014 BONDS DO NOT CONSTITUTE A DEBT OF THE WATER DISTRICT WITHIN THE MEANING OF ANY STATUTORY OR CONSTITUTIONAL DEBT LIMITATION. THE INFORMATION SET FORTH IN THIS OFFICIAL STATEMENT, INCLUDING INFORMATION UNDER THE HEADING "SPECIAL RISK FACTORS," SHOULD BE READ IN ITS ENTIRETY.

This cover page contains certain information for general reference only. It is not a summary of all of the provisions of the 2014 Bonds. Prospective investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision. See "SPECIAL RISK FACTORS" herein for a discussion of the special risk factors that should be considered, in addition to the other matters and risk factors set forth herein, in evaluating the investment quality of the 2014 Bonds.

The 2014 Bonds are offered when, as and if issued, subject to approval as to their legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel. Certain legal matters will also be passed on by Jones Hall, A Professional Law Corporation as Disclosure Counsel. Certain legal matters will be passed upon for the Water District by Griffith & Masuda, Turlock, California. It is anticipated that the 2014 Bonds will be available for delivery to DTC on or about August 8, 2014 in New York, New York.

WESTHOFF, CONE & HOLMSTEDT

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The date of this Official Statement is July 25, 2014.

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2014 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 2014 Bonds. Payments of the principal, premium, if any, and interest on the 2014 Bonds will be made directly to DTC, or its nominee, Cede & Co. so long as DTC or Cede & Co. is the registered owner of the 2014 Bonds. Disbursements of such 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 H – BOOK-ENTRY SYSTEM."

Refunding Plan. The Water District has previously issued on its behalf its (i) Western Hills Water District Diablo Grande Community Facilities District No. 1 Special Tax Bonds Series 2001 (the "**2001 Bonds**"), (ii) Western Hills Water District Diablo Grande Community Facilities District No. 1 Special Tax Bonds Series 2002 (the "**2002 Bonds**"), and (iii) Western Hills Water District Diablo Grande Community Facilities District No. 1 Special Tax Bonds Series 2004 (the "**2004 Bonds**") (together, the "**Refunded Bonds**"). The District has also issued its Western Hills Water District Diablo Grande Community Facilities District No. 1 Special Tax Bonds Series 2005 (the "**2005 Bonds**") for the purpose of financing costs of acquiring and constructing certain public infrastructure improvements within the District, which will remain outstanding and secured on parity with the 2014 Bonds.

The Refunded Bonds are currently outstanding in the aggregate principal amount of $38,545,000 which will be redeemed in full, on an current basis, on September 1, 2014 (the "**Redemption Date**") at a redemption price equal to 100% of their principal amount, together with interest coming due and payable on the Redemption Date.

In order to accomplish the refinancing plan, the net proceeds of the Bonds, together with certain other funds on hand with respected to the Refunded Bonds, will be transferred to Bank of New York Mellon Trust Company, N.A., as fiscal agent for the Refunded Bonds, registrar and transfer agent, for deposit into a prior bonds escrow subaccount (the "**Escrow Subaccount**") to be established under Irrevocable Refunding Instructions given by the Water District to the Fiscal Agent.

Source of Payment of the 2014 Bonds. The 2014 Bonds are payable from the levy of special taxes (the "**Special Tax**" or "**Special Taxes**") which are to be annually levied by the Water District on taxable real property within the boundaries of the District. The 2014 Bonds are secured and payable on parity with the Water District's $7,580,000 outstanding amount of 2005 Bonds. The Water District has issued the entire $57,000,000 authorized amount of bonds authorized for the District, and no Additional Bonds (described herein) may thereafter be issued by the Water District, except for refunding bonds. The Bonds are also payable from the proceeds of any foreclosure actions brought following a delinquency in the payment of the Special Taxes, and from amounts held in certain funds and accounts established pursuant to the Fiscal Agent Agreement, including a reserve fund, all as more fully described herein. The Special Tax applicable to each taxable parcel in the District will be levied and collected according to the tax liability determined by the Board of Directors of the Water District through the application of the approved the rate and method of apportionment of Special Tax for the District (the "**Special Tax Formula**"). The Special Tax Formula is set forth in APPENDIX A hereto. The Special Taxes represent fixed liens on the parcels of land subject to a Special Tax under the proceedings and failure to pay the Special Tax could result in proceedings to foreclose title to the delinquent property. The Special Taxes do not constitute the personal indebtedness of the owners of taxed parcels and no proceedings to collect directly from an owner is permitted. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS — Special Tax Methodology" and "APPENDIX A — RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX."

In connection with the issuance of the 2001 Bonds, the Water District directed the Fiscal Agent to establish a Reserve Fund (the "**Reserve Fund**") from 2001 Bond proceeds, which was increased from

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under a Specific Plan (described herein) approved by the County for residential lots, some of which have received final map approval and include homes completed and sold or under construction, a hotel site and winery site, all originally proposed by the Original Developer as Phase 1/Unit 1, the initial portion of the overall development.

All of the Improvements to be financed with proceeds of the four previous series of bonds have been completed. The Current Developer is not a homebuilder and contemplates selling residential lots to merchant homebuilders, custom homebuilders and individuals.

Currently, four of the five Board members of the Water District are persons who are employed by or otherwise associated with the Current Developer. See "THE DISTRICT" and "OWNERSHIP OF PROPERTY WITHIN THE DISTRICT."

Market Report. A market assessment and analysis report was prepared by Meyers Research LLC, dated July, 2014 (the "**Market Report**"). The Market Report was commissioned by the Current Developer in connection with its evaluation of the current development potential of its undeveloped land in the District. The Market Report analyzed residential product types, pricing and absorption for the entirety of the Phase 1 Village master plan in the market as it existed on the date of the report, along with projections of the market demand for 2015 through an assumed potential buildout of the community. See "THE DISTRICT - Development History of the Project" and "APPENDIX C - Market Assessment and Analysis Report."

Security for the Bonds. Taxable property in the District is security for the Special Tax and the Special Tax is security for the Bonds. The Water District authorized the preparation of an appraisal report for 318 undeveloped taxable parcels within the District, which appraisal sets forth a value of such undeveloped property of $59,114,000 as of June 28, 2014. In considering the estimates of value evidenced by the appraisal, it should be noted that the appraisal is based upon a number of standard and special assumptions which affected the estimates as to value. See "VALUE ESTIMATE OF PROPERTY WITHIN THE DISTRICT" and Appendix B.

For parcels subject to the Special Tax and not included in the appraisal, the 2013-14 County assessed valuation is $91,211,471. The aggregate value of the property in the District includes both the $59,114,000 appraised value of the 318 undeveloped parcels and the assessed value of the remainder. Based upon the $150,325,471 total valuation and an aggregate outstanding principal amount of 2005 Bonds of $7,580,000 and 2014 Bonds of 38,505,000, for a total amount of Bonds of $46,085,000, the value-to-lien ratio for property in the District is 3.3 to 1.

Unpaid Special Taxes do not constitute a personal indebtedness of the owners of any of the parcels within the District. In the event of delinquency, proceedings may be conducted only against the real property on which the Special Tax is delinquent. The unpaid Special Taxes are not required to be paid upon sale of property within the District.

Risks of Investment. See the section of this Official Statement entitled "SPECIAL RISK FACTORS" for a discussion of special factors that should be considered, in addition to the other matters set forth herein, in considering the investment quality of the 2014 Bonds.

Limited Obligation of the Water District. **The general fund of the Water District is not liable and the full faith and credit of the Water District is not pledged for the payment of the interest on, or principal of or redemption premiums, if any, on the Bonds. The Bonds are not secured by a legal or equitable pledge of or charge, lien or encumbrance upon any property of the Water District or any of its income or receipts, except the money in the Special Tax Fund (described herein)**

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Delinquent Payments of Special Tax; Covenant for Superior Court Foreclosure

Special Tax Payments and Foreclosure Proceedings The Special Tax will be collected in the same manner and the same time as *ad valorem* property taxes, except at the Water District's option, the Special Taxes may be billed directly to property owners. In the event of a delinquency in the payment of any installment of Special Taxes, the Water District is authorized by the Act to order institution of an action in superior court to foreclose the lien therefor.

The Water District has covenanted in the Fiscal Agent Agreement with and for the benefit of the Owners of the Bonds that it will cause a special tax consultant to annually on or before September 1 of each year review the public records of the County of Stanislaus relating to the collection of the Special Tax in order to determine the amount of the Special Tax collected in the prior fiscal year, and if the Water District determines on the basis of such review that the amount so collected is deficient by more than 5% of the total amount of the Special Tax levied in the District in such Fiscal Year, it will within 30 days thereafter institute foreclosure proceedings as authorized by the Act in order to enforce the lien of the delinquent installment of the Special Tax against each separate lot or parcel of land in the District for which such installment of the Special Tax is delinquent, and will diligently prosecute and pursue such foreclosure proceedings to judgment and sale; *provided,* that if the Water District determines on the basis of such review that (a) the amount so collected is deficient by less than 5% of the total amount of the Special Tax levied in the District in such Fiscal Year, but that property owned by any single property owner in the District is delinquent by more than $10,000 with respect to the Special Tax due and payable by such property owner in such Fiscal Year, or (b) property owned by any single property owner in the District is delinquent cumulatively by more than $5,000 with respect to the current and past Special Tax due (irrespective of the total delinquencies in the District) then the Water District will cause to the Fiscal Agent to institute, prosecute and pursue such foreclosure proceedings in the time and manner provided in the Fiscal Agent Agreement against each such property owner.

Under the Act, foreclosure proceedings are instituted by the bringing of an action in the superior court of the county in which the parcel lies, naming the owner and other interested persons as defendants. The action is prosecuted in the same manner as other civil actions. In such action, the real property subject to the special taxes may be sold at a judicial foreclosure sale for a minimum price which will be sufficient to pay or reimburse the delinquent special taxes.

The owners of the Bonds benefit from the Reserve Fund established pursuant to the Fiscal Agent Agreement; however, if delinquencies in the payment of the Special Taxes with respect to the Bonds are significant enough to completely deplete the Reserve Fund, there could be a default or a delay in payments of principal and interest to the owners of the Bonds pending prosecution of foreclosure proceedings and receipt by the Water District of the proceeds of foreclosure sales in an amount sufficient to pay delinquent amounts. Provided that it is not levying the Special Tax at the Maximum Annual Special Tax rates set forth in the Special Tax Formula, the Water District may adjust (but not to exceed the Maximum Annual Special Tax) the Special Taxes levied on all property within the District subject to the Special Tax to provide an amount required to pay debt service on the Bonds and to replenish the Reserve Fund.

Under current law, a judgment debtor (property owner) has at least 140 days from the date of service of the notice of levy in which to redeem the property to be sold. If a judgment debtor fails to redeem and the property is sold, his or her only remedy is an action to set aside the sale, which must be brought within 90 days of the date of sale. If, as a result of such an action a foreclosure sale is set aside, the judgment is revived and the judgment creditor is entitled to interest on the revived judgment as if the sale had not been made (California Code of Civil Procedure Section 701.680).

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BOND OFFERING STATEMENT

The table below summarized the fiscal year 2013-14 value to debt ratios.

Table 6
Western Hills Water District
Community Facilities District No. 1
Summary of Value to Debt Ratios

Value-to-Debt Category	Number of Parcels	Composite Value	Bonded Debt	% of Bonded Debt
10 : 1 to 19.9 : 1	89	$27,497,483	$2,316,950	5.0%
5 : 1 to 9.9 : 1	400	66,230,834	9,441,267	20.5%
3 : 1 to 5 : 1	134	13,956,288	3,148,081	6.8%
1 : 1 to 3 : 1	42	4,853,182	2,391,271	5.2%
0 : 1 to 1 : 1	7	7,357,684	25,622,262	55.5%
World International Remaining Parcels				
5 : 1 to 9.9 : 1 (1)	71	30,430,000	3,235,168	7.0%
Total	743	150,325,471	46,155,000	100.0%

(1) Includes 71 properties owned by World International that were appraised in bulk.
Sources: Appraised Values provided by Seevers, Jordan & Ziegenmeyer, compiled by Goodwin Consulting Group, Inc.

Other public agencies whose boundaries overlap those of the District could, without the consent of the Water District and in certain cases without the consent of the owners of the land within the District, impose additional taxes or assessment liens on the land within the District. The purpose would be to finance additional regional or local public improvements or services. The lien created on the land within the District through the levy of such additional taxes or assessments may be on a parity with the lien of the Special Tax. In addition, construction loans may be obtained by the Current Developer or home loans may be obtained by ultimate homeowners. The deeds of trust securing such debt on property within the District, however, will be in a junior position to the lien of the Special Tax.

Priority of Lien

The principal of and interest on the Bonds are payable from the Special Tax authorized to be collected within the District, and payment of the Special Tax is secured by a lien on certain real property within the District. Such lien is co-equal to and independent of the lien for general taxes and any other liens imposed under the Act, regardless of when they are imposed on the property in the District. The imposition of additional special taxes, assessments and general property taxes will increase the amount of independent and co-equal liens which must be satisfied in foreclosure. The Water District, the County and certain other public agencies are authorized by the Act to form other community facilities districts and improvement areas and, under other provisions of State law, to form special assessment districts, either or both of which could include all or a portion of the land within the District.

There can be no assurance that the property owners within the District will not petition for the formation of other community facilities districts and improvement areas or for a special assessment district or districts and that parity special taxes or special assessments will not be levied by the County or some other public agency to finance additional public facilities, however no other special districts are currently contemplated by the Water District or the Current Developer.

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