

**RUNNING SPRINGS WATER DISTRICT
DEFERRED COMPENSATION PLAN**

AMENDMENT NO. 2

RECITALS

A. The RUNNING SPRINGS WATER DISTRICT DEFERRED COMPENSATION PLAN (hereinafter referred to as the "Plan") was adopted on August 24, 1998 by RUNNING SPRINGS WATER DISTRICT (hereinafter the "Employer").

B. It is necessary for the Employer to amend the Plan to comply with certain provisions of the Heroes Earnings Assistance and Relief Tax Act of 2008; the Worker, Retiree and Employer Recovery Act of 2008; the Small Business Jobs Act of 2010, and regulations issued by the Internal Revenue Service applicable to deferred compensation plans subject to Internal Revenue Code Section 457(b).

C. Employer also desires to implement a designated Roth deferral program effective for the plan year beginning after December 31, 2011.

D. Section 13.01 of Article XIII of the Plan provides that the Employer reserves the right to amend the Plan at any time.

AMENDMENT

NOW, THEREFORE, Employer hereby amends the RUNNING SPRINGS WATER DISTRICT DEFERRED COMPENSATION PLAN as follows:

1. The following paragraph is added to the end of Section 3.06 of Article III:

Effective for the plan year beginning on or after January 1, 2012, each Participant may elect to defer a portion of his or her Includable Compensation to the Plan as either pre-tax Deferral Compensation or Roth Contribution. Each Participant's election shall specify the type (either Roth, pre-tax or a combination) of Deferred Compensation to be withheld from Compensation. Deferred Compensation credited to a Participant's Account under the Plan shall be designated as a pre-tax contribution unless the Participant makes an affirmative election to designate the amount(s) as a Roth Contribution. Deferred Compensation contributed to the Plan as one type, either Roth or Pre-Tax, may not later be reclassified as the other type.

2. The definition of "Eligible Retirement Plan" at Section 3.07 of Article III is amended to add the following sentence:

Eligible Retirement Plan shall also mean a Roth IRA under Section 408A of the Code established in the name of the Participant or an eligible

governmental plan described in Section 457(b) of the Code which establishes an individual account to hold designated Roth contributions on behalf of the Participant pursuant to Section 402A of the Code.

3. The following paragraph is added to the end of Section 3.11 of Article III:

Effective for plan years beginning after December 31, 2008, an individual receiving a differential wage payment from the Employer as defined in Code Section 3401(h)(2), shall be treated as an Employee of the Employer and the differential wage payments shall be treated as Compensation for purposes of determining vesting and benefit accrual. The Plan shall not be treated as failing to meet the requirements of any provision described in Code Section 414(u)(1)(C) by reason of any contribution or benefit which is based on the differential wage payment.

4. The definition of "Severance from Employment" at Section 3.17 of Article III is amended to add the following sentence:

An Employee shall be treated as having experienced a Severance from Employment during a period of qualified military service (as described under Code Section 414(u)).

5. The following definition of "Roth Contributions" is added as a new Section 3.19 under Article III:

3.19. Roth Contributions: Any amount of Deferred Compensation irrevocably designated as Roth Contributions by the Participant in his or her Deferred Compensation Agreement. Roth Contributions are includible in the Participant's Includable Compensation at the time deferred subject to applicable payroll withholding requirements and shall not be includible in the Participant's gross income at the time of distribution if distribution is a Qualified Roth Distribution in accordance with the terms of Section 7.11.

6. The following is added as a new paragraph (g) under Section 7.04:

(g) WRERA Elections for 2009 Calendar Year. Notwithstanding any other provisions of this Section 7.04, a Participant or Beneficiary who would have been required to receive required minimum distributions for 2009 but for the enactment of Code Section 401(a)(9)(H) ("2009 RMDs") and who would have satisfied that requirement by receiving distributions that are (1) equal to the 2009 RMDs or (2) one or more payments in a series of substantially equal distributions (that include the 2009 RMDs) made at least annually and expected to last for the life (or life expectancy) of the Participant,

the joint lives (or joint life expectancy) of the Participant and the Participant's designated Beneficiary, or for a period of at least 10 years, will not receive those distributions for 2009 unless the Participant or Beneficiary chooses to receive such distributions. Participants and Beneficiaries described in the preceding sentence will be given the opportunity to elect to receive the distributions described in the preceding sentence. In addition, solely for purposes of applying the direct rollover provisions of the Plan, a direct rollover will include 2009 RMDs but only if paid as part of a larger amount that is an Eligible Rollover Distribution without regard to Code Section 401(a)(9)(H).

7. The following is added as a new Section 75.11 under Article VII:

7.11 Distribution of Designated Roth Contribution Accounts.

The distribution of a Participant's Roth Contributions shall be considered a "Qualified Roth Distribution" eligible for exclusion from federal and state income tax withholding if the following requirements are met:

- (a) The distribution is made –
 - (1) on or after the date on which the Participant reaches age 59½; or
 - (2) to the Participant's designated Beneficiary following the death of the Participant; or
 - (3) to a Participant as a result of a determination of disability.
- (b) The distribution occurs no earlier than the end of the five (5) year period beginning with the first day of the Plan Year in which the Participant elects to contribute Roth Contributions under the Plan.

The failure of a distribution to satisfy the requirements of this Section 7.11 shall not prevent a Participant from receiving a distribution of his or her Roth Contributions provided the distribution otherwise satisfies the requirements of Article VII. The failure, however, shall cause such distribution to be subject to the mandatory income tax withholding provisions otherwise applicable if the distribution is not transferred to an Eligible Retirement Plan.

8. The following is added as a new Section 7.12 under Article VII:

7.12 Special Rule for Deceased or Disabled Veterans. In the case of a Participant who becomes disabled or dies during qualified military service, as defined under USERRA, on or after January 1, 2007, the Participant or his or her designated Beneficiary shall be entitled to any additional benefits provided under the Plan as if the Participant had resumed employment with the Employer on the day preceding death or disability and then terminated employment on the actual date of the death or disability.

IN WITNESS WHEREOF, the Employer has caused this amendment to
be executed on January 18, 2012.

EMPLOYER:

RUNNING SPRINGS WATER DISTRICT

By: *Kenneth Ayers* Kenneth Ayers
Its: President, Board of Directors

APPROVED AS TO FORM AND CONTENT:
BEST BEST & KRIEGER LLP

By: *Michael T Riddell*
Attorneys for Employer



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Memorandum

CONFIDENTIAL

To: Joan Eaton
Running Springs Water District

From: John D. Wahlin

Date: January 3, 2012

Re: 457 Deferred Compensation Plan

Enclosed for your review is an Amendment No. 2 to the District's 457 Deferred Compensation Plan to update the plan for recent laws affecting eligible governmental deferred compensation plans. Following is a summary of these changes for your reference:

Military Service. The Heroes Earnings Assistance and Tax Relief Tax Act of 2008 ("HEART") extended certain rights and protections to participants who are called away to active military duty. HEART provides that a participant who becomes disabled or the beneficiary of a participant who dies during active military duty will be entitled to any benefits that would be otherwise available if the participant had not become disabled or deceased.

Further, differential wages paid by the District during active military duty is now treated as compensation under the Plan and the participant receiving such pay is still considered an employee. However, even though the individual is still considered an active participant, the definition of "Severance from Employment" has been revised to permit a participant out on qualified military leave to be considered terminated solely for purposes of receiving an eligible distribution from the Plan. In other words, the individual is considered terminated for purposes of the Plan's distributions provisions but is otherwise considered an active employee.

2009 Required Minimum Distributions. The required minimum distribution requirements of Section 401(a)(9) were suspended for the 2009 calendar year and this must be documented in the plan. The provision was included in the Worker, Retiree and Employer Recovery Act of 2008.

Roth Contributions. We have included the appropriate language to implement Roth Contributions under the Plan. The Small Business Jobs Act of 2010 extended the option to offer Roth salary deferrals under a governmental 457(b) plan effective January 1, 2012. Roth accounts are after-tax contributions which are tax free upon distribution. If a participant makes the Roth election, all earnings on Roth contributions that accumulate over the years of participation are distributed tax free. The potential benefit of making a Roth election will vary among participants based on age and other factors. In addition, Roth contributions do not supplement regular deferrals; rather, they are counted as part of the annual deferral limit. Therefore, a participant may allocate a portion of his contribution as a pre-tax deferral and a



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portion as a Roth deferral. The Roth contributions must be accounted for separately from pre-tax deferrals due to the differing tax consequences.

Please contact my office if you have any questions concerning the adoption of Amendment No. 2 to the Deferred Compensation Plan. Thank you for your consideration.

cc: Michael Riddell