

**West Valley Sanitation District (Santa Clara County, California)
Sewer Revenue Refunding Bonds, Series 2010
\$6,385,000***

New Issue: Book-Entry Only **Sale Date:** April 7, 2010

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

Tax Exemption: In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the District, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Series 2010 Bonds (“the Bonds”) is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”) and (ii) interest on the Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations.

Redemption: The Bonds are subject to optional redemption prior to their stated dates of maturity.

Security: The Bonds are special obligations of the District payable solely from System Net Revenues as defined in the Indenture. System Net Revenues consist generally of all revenues of the District's sewer system after payment of operation and maintenance expenses. Neither the full faith and credit nor the taxing power of the District is pledged to the payment of the Bonds or interest thereon.

Purpose: The Bonds will be used to refund outstanding maturities of the District's Wastewater Revenue Bonds, Series 2000C, and pay issuance costs for the Bonds.

Interest Payment Dates: April 1 and October 1, beginning October 1, 2010

Closing: On or about April 21, 2010

Denominations: \$5,000 or multiple thereof

Trustee: Union Bank, N.A., San Francisco, California

Bond Counsel: Hawkins Delafield & Wood LLP, San Francisco, California

District Counsel: Douglas B. Aikins

Financial Advisor: Bartle Wells Associates, Berkeley, California

Year (Oct-1)*	Principal Amount*	Interest Rate	Yield	CUSIP	Year (Oct-1)*	Principal Amount*	Interest Rate	Yield	CUSIP
2010	\$210,000				2021	\$305,000			
2011	220,000				2022	320,000			
2012	225,000				2023	325,000			
2013	235,000				2024	340,000			
2014	235,000				2025	355,000			
2015	245,000				2026	370,000			
2016	250,000				2027	380,000			
2017	265,000				2028	400,000			
2018	270,000				2029	415,000			
2019	285,000				2030	440,000			
2020	295,000								

Terms and conditions of the Sale of the Sewer Revenue Refunding Bonds Series 2010 are set forth in the Official Notice of Sale. Bids will be received on April 7, 2010 via PARITY or at the office of Bartle Wells Associates, telephone 510.653.3399, fax 510.653.3769, up to and including 10:00 a.m. Pacific Time. Following acceptance of a bid, information on interest rates and reoffering prices and/or yields will be printed in the spaces above.

This Preliminary Official Statement is dated March 23, 2010.

* Preliminary, subject to change

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

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Official Statement
WEST VALLEY SANITATION DISTRICT
100 East Sunnyoaks Ave.
Campbell, California

Formed November 1, 1948

Board of Directors

Dan Furtado, *Councilmember, Campbell (WVSD Board Vice-Chairperson)*
Diane McNutt, *Mayor of Los Gatos*
Don Perry, *Mayor of Monte Sereno*
Chuck Page, *Councilmember, Saratoga*
Ken Yeager, *Supervisor, Fourth District, Santa Clara County (WVSD Board Chairperson)*

District Staff

Robert R. Reid, *General Manager*

Professional Services

Hawkins Delafield & Wood LLP, San Francisco, California, *Bond Counsel*
Bartle Wells Associates, Berkeley, California *Financial Advisor*
Douglas B. Aikins, *District Counsel*
Union Bank, N.A., *Trustee/Escrow Agent*

This Official Statement provides information about the District and the Sewer Revenue Refunding Bonds. The Official Statement includes:

1. data supplied by the District and by others, as indicated herein;
2. estimates or projections which may or may not be realized and which should not be construed as assertions of fact; and
3. summaries and descriptions of legal and financial documents, or their contents, which do not purport to describe such documents completely and which are made expressly subject to the full provisions of the documents cited.

This Official Statement does not constitute a recommendation, express or implied, to purchase or not to purchase the Sewer Revenue Refunding Bonds or any other previous debt of the District.

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THE BONDS

Description of the Bonds

Name: West Valley Sanitation District
(Santa Clara County, California)
Sewer Revenue Refunding Bonds,
\$6,385,000*

Dated: As of the date of delivery

Denomination: \$5,000 or any multiple thereof

Maturities: October 1, 2010 through October 1, 2030.

Interest: Interest is payable on April 1 and October 1 of each year to the respective dates of maturity of the Bonds, beginning October 1, 2010.

Payment: The West Valley Sanitation District (the "District") Sewer Revenue Refunding Bonds, Series 2010 (the "Bonds") will be executed, sold, and delivered in fully registered form, without coupons. The Bonds will be registered in the name of Cede & Co., as nominee of the Depository Trust Company ("DTC"), New York, New York, as the initial securities depository for the Bonds. Ownership interests in the Bonds may be purchased in book-entry form only. Purchasers of the Bonds will not receive bond certificates representing their ownership interests in the Bonds purchased. Principal and interest payments with respect to the Bonds are payable directly to DTC by the Trustee. Upon receipt of payments of principal and interest, DTC will in turn distribute such payments to the beneficial owners of the Bonds. See Appendix E, Book Entry System.

Optional Redemption: The Bonds maturing on or before October 1, 2018 are not subject to optional redemption prior to their stated dates of maturity. The Bonds maturing on or after October 1, 2019, are subject to optional redemption by the District on any date on or after October 1, 2018, as a whole or in part, from any lawful source and deposited with the Trustee not less than five days prior to the date of redemption, at a redemption price equal to 100 percent of the principal amount of the Bonds to be redeemed, together with a premium (expressed as a percentage of the principal amount to be redeemed) as set forth following, plus accrued interest to the date of redemption:

Redemption Dates	Premium
October 1, 2018 through September 30, 2019	1%
October 1, 2019 and thereafter	0%

* Preliminary, subject to change

Authority for Issuance

The Bonds are being issued pursuant to the laws and the Constitution of the State of California, including but not limited to Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5, commencing with section 53570 of the Government Code of the State of California, and pursuant to the provisions of the Master Indenture, dated as of April 1, 2010 (the “Master Indenture”), by and between the District and Union Bank, N.A. as trustee (the “Trustee”) and the First Supplemental Indenture (the “Supplemental Indenture” and, collectively with the Master Indenture, the “Indenture”), by and between the District and the Trustee.

The Master Indenture and Supplemental Indenture were approved to form by resolution of the District Board on March 10, 2010.

Purpose

Proceeds of the Bonds will be used to refund outstanding maturities of the California Statewide Communities Development Authority Water and Wastewater Revenue Bonds (Pooled Financing Program), Series 2000C and pay costs associated with the issuance of the Bonds.

Refunding Plan

The proceeds of the Bonds will be used to refund \$6,095,000 principal amount of the California Statewide Communities Development Authority Water and Wastewater Revenue Bonds (Pooled Financing Program), Series 2000C (the “2000C Bonds”). The 2000C Bonds funded new improvements to the District’s wastewater system.

Under the refunding plan, prior to, or concurrent with the delivery of the Bonds, the District will enter into an escrow deposit and trust agreement (the “Escrow Agreement”) with Union Bank, N.A. as the escrow bank (the “Escrow Agent”) with respect to the outstanding 2000C Bonds to be refunded. The Escrow Agent will use the amounts deposited in the escrow fund to pay the principal, interest, and redemption premium on the remaining 2000C Bonds upon redemption. Proceeds deposited into the escrow fund may be used to purchase direct obligations of the United States of America or other obligations for which the faith and credit of the United States are pledged for the payment of principal and interest. Interest on and principal of the government securities and cash in the escrow fund will be used by the escrow bank to redeem all outstanding maturities of the 2000C Bonds as specified in the escrow agreement on or prior to May 21, 2010. Upon deposit of such proceeds into the escrow fund, the 2000C Bonds will no longer be deemed outstanding.

Estimated Sources and Uses of Funds

**Table 1 ■ West Valley Sanitation District
Sewer Revenue Refunding Bonds, Series 2010
Estimated Sources and Uses of Funds**

Sources

Par Amount of Bonds	\$6,385,000.00
Original Issue Premium (Discount)	0.00
<u>Cash payment from District</u>	<u>44,739.24</u>
Total	\$6,429,739.24

Uses

Refunding Escrow Requirement	\$6,261,317.47
Underwriter's Discount (1%)	63,850.00
Issuance cost	103,000.00
<u>Misc fees/contingency/rounding</u>	<u>1,571.76</u>
Total	\$6,429,739.24

Projected Debt Service Schedule*

**Table 2 ■ West Valley Sanitation District
Sewer Revenue Refunding Bonds, Series 2010
Projected Debt Service**

Fiscal Year Ending	October 1			April 1 Interest	Fiscal Year Total
	Interest	Principal	Subtotal Oct 1		
2011	\$98,552	\$210,000	\$308,552	110,346	\$418,898
2012	110,346	220,000	330,346	109,521	\$439,868
2013	109,521	225,000	334,521	108,340	\$442,861
2014	108,340	235,000	343,340	106,754	\$450,094
2015	106,754	235,000	341,754	104,756	\$446,510
2016	104,756	245,000	349,756	102,000	\$451,756
2017	102,000	250,000	352,000	98,875	\$450,875
2018	98,875	265,000	363,875	95,099	\$458,974
2019	95,099	270,000	365,099	90,914	\$456,013
2020	90,914	285,000	375,914	86,211	\$462,125
2021	86,211	295,000	381,211	81,049	\$462,260
2022	81,049	305,000	386,049	75,406	\$461,455
2023	75,406	320,000	395,406	69,246	\$464,653
2024	69,246	325,000	394,246	62,746	\$456,993
2025	62,746	340,000	402,746	55,606	\$458,353
2026	55,606	355,000	410,606	47,619	\$458,225
2027	47,619	370,000	417,619	38,831	\$456,450
2028	38,831	380,000	418,831	29,806	\$448,638
2029	29,806	400,000	429,806	20,306	\$450,113
2030	20,306	415,000	435,306	10,450	\$445,756
2031	10,450	440,000	450,450	0	\$450,450

* Preliminary – subject to change

SECURITY FOR THE BONDS

Pledge of System Net Revenues

All System Net Revenues, and all amounts on deposit in the System Revenue Fund, and in the funds or accounts specified and provided for in the Indenture (except the Rebate Fund), are irrevocably pledged by the District to the punctual payment of the interest on and principal (and redemption premiums if any) of the Bonds, any Parity Obligations (collectively "Parity Debt"), and the System Net Revenues and such other money may not be used for any other purpose while any of the Bonds remain Outstanding, except as otherwise provided in the Indenture.

"System Net Revenues" means for any period System Revenues less Operation and Maintenance Costs for such period; provided that certain adjustments in the amount of System Net Revenue deemed collected during a Fiscal Year may be made in connection with amounts deposited in the Rate Stabilization Fund as provided in the Indenture.

"System Revenues" means all gross income and revenue received, or receivable by the District, from the ownership or operation of the System, determined in accordance with Generally Accepted Accounting Principles, including all fees, rates, charges and all amounts paid under any contracts received by or owed to the District in connection with the operation of the System and all proceeds of insurance relating to the System and all other income and revenue howsoever derived by the District from the ownership or operation of the System or arising from the System.

"Operation and Maintenance Costs" means all management, operation and maintenance costs of the System, determined in accordance with Generally Accepted Accounting Principles, including all incidental costs, fees and expenses properly chargeable thereto and all amounts properly chargeable thereto by the general fund of the District; but excluding in all cases (i) payment of Parity Debt and Subordinate Obligations, (ii) costs of capital additions, replacements, betterments, extensions or improvements which under Generally Accepted Accounting Principles, are chargeable to a capital account, and (iii) depreciation, replacement and obsolescence charges or reserves therefore and amortization of intangibles or other bookkeeping entries of a similar nature.

"System" means the whole and each and every part of the sewer system of the District, including the portion presently in existence, and including all additions, betterments, extensions and improvements to such system or any part acquired or constructed in the future.

Rate Covenant

The District covenants under the Indenture that, at all times while any of the Bonds remain Outstanding, to the maximum extent permitted by law, it will fix, prescribe and collect rates, fees and charges and manage the operation of the System for each Fiscal Year so as to yield System Revenues at least sufficient, after making reasonable allowances for contingencies and errors in the estimates, to pay the following amounts during such Fiscal Year:

- (i) All current Operation and Maintenance Costs;

- (ii) The interest on and principal and Sinking Fund Account Installments of the Bonds and the payments for all other Parity Debt as they become due and payable during the Fiscal Year, without preference or priority;
- (iii) All payments required for compliance with the terms of the Indenture, including any Supplemental Indenture; and
- (iv) All payments to meet any other obligations of the District which are charges, liens or encumbrances upon, or payable from, the System Net Revenues.

In addition to the foregoing requirements, the District will, at all times while any of the Bonds remain Outstanding, to the maximum extent permitted by law, fix, prescribe and collect rates, fees and charges and manage the operation of the System for each Fiscal Year so as to yield System Net Revenues during such Fiscal Year equal to at least 120 percent of the Annual Debt Service in such Fiscal Year; *provided*, an adjustment will be made to the amount of System Net Revenues for deposits to or withdrawals from the Rate Stabilization Fund as provided in the Indenture.

Issuance of Parity Debt

The District may at any time issue Parity Debt payable from System Net Revenues from the sewer system provided:

1. The District is in compliance with all agreements, conditions, covenants and terms contained in the Indenture required to be observed or performed by it, and a Certificate of the District to that effect has been filed with the Trustee (this condition will not apply where the purpose of the proposed Bonds and/or Parity Debt is to cure such non-compliance);
2. The Parity Debt shall have been duly authorized pursuant to all applicable laws;
3. The System Net Revenues for the last completed Fiscal Year or for any 12 consecutive months within the last 18 months preceding the date of execution of such Parity Debt, as shown by a Certificate of the District on file with the Trustee, plus an allowance for increased System Net Revenues arising from any increase in the rates, fees and charges of the System which was duly adopted by the governing board of the District prior to the date of the execution of such Parity Debt but which, during all or any part of such 12-month period, was not in effect, in an amount equal to the amount by which the System Net Revenues would have been increased if such increase in rates, fees and charges had been in effect during the whole of such 12-month period, as shown by a Certificate of the District on file with the Trustee, has produced a sum equal to at least 120 percent of the Maximum Annual Debt Service as calculated after the execution of such Parity Debt; *provided*, that in the event that all or a portion of such Parity Debt is to be issued for the purpose of refunding and retiring any Parity Debt then outstanding, interest and principal payments on the Parity Debt to be so refunded and retired from the proceeds of such Parity Debt being issued will be excluded from the foregoing computation of Maximum Annual Debt Service; *provided further*, that the District may at any time issue Parity Debt without compliance with the foregoing conditions if the Annual Debt Service for each Fiscal Year during which such Parity Debt is

outstanding will not be increased by reason of the issuance of such Parity Debt; and *provided further*, an adjustment will be made in the amount of System Net Revenues for deposit to or withdrawals from the Rate Stabilization Fund as provided in the Indenture.

Furthermore, nothing contained in the tests above will limit the issuance of any Subordinate Obligations.

Rate Stabilization Fund

The Indenture creates a Rate Stabilization Fund. The District may, during or within 210 days after a Fiscal Year, deposit surplus System Net Revenues transferred from the System Revenue Fund attributable to such Fiscal Year (on the basis of Generally Accepted Accounting Principles) into the Rate Stabilization Fund. The District may at any time withdraw moneys from the Rate Stabilization Fund and deposit it into the System Revenue Fund. System Net Revenues deposited into the Rate Stabilization Fund will not be taken into account as System Net Revenues for purposes of the calculations required by the covenants in the Indenture relating to System Net Revenue coverage and additional Parity Debt in the Fiscal Year to which such deposit is attributable, and amounts withdrawn from the Rate Stabilization Fund, during or within 210 days after a Fiscal Year, may be taken into account as System Revenues for purposes of the calculations required by such covenants in such Fiscal Year, provided that, for purposes of the calculation required under the System Net Revenue coverage covenant in the Indenture, the amount of System Net Revenues before any credits for withdrawals from the Rate Stabilization Fund may not be less than 100% of Maximum Annual Debt Service for outstanding Parity Debt.

Amendment of the Indenture

The Indenture and the rights and obligations of the District and of the Owners of the Bonds under the Indenture may be amended at any time by a Supplemental Indenture which shall become binding when the written consents of the Owners of at least sixty per cent (60%) in aggregate principal amount of the Bonds then Outstanding are filed with the Trustee.

No such amendment shall (1) extend the maturity of or reduce the interest rate on, or otherwise alter or impair the obligation of the District to pay the interest or principal or redemption premium, if any, of any Bond, without the express written consent of the Owner of the affected Bond, or (2) permit the creation by the District of any mortgage, pledge or lien upon the System Revenues superior to or on a parity with the pledge and lien created herein for the benefit of the Bonds, or (3) reduce the percentage of Bonds required for the written consent to any such amendment, or (4) modify the rights or obligations of the Trustee without its prior written assent thereto.

WEST VALLEY SANITATION DISTRICT

General

The West Valley Sanitation District of Santa Clara County (the “District”) located in Santa Clara County (the “County”) is a special district established on November 1, 1948, under the County Sanitation District Act, Section 4700 *et seq.* of the California Health and Safety Code (the “Act”).

The District was initially formed as County Sanitation District No. 4 of Santa Clara County under the Act. In 1988 the District changed its name to West Valley Sanitation District of Santa Clara County, in an effort to reflect its geographical service area.

The District began with a population of 20,000 in 1948 and now serves approximately 112,000 persons. The District’s 1948 service area encompassed 23,000 acres. As unincorporated areas were absorbed into the City of San Jose, the District’s service area gradually decreased to its current level of 18,131 acres, or approximately 28 square miles. The District serves the cities of Campbell, Monte Sereno, two-thirds of Saratoga, the Town of Los Gatos, and adjacent county areas.

Governance and Management

The District is governed by a five-member governing board. The current directors and the expiration dates of their terms are set forth below.

<u>Member</u>	<u>Title</u>	<u>Dates of Term</u>
Dan Furtado	Board Vice-Chairperson	January 14, 2009 -
Diane McNutt	Director	January 11, 2006 -
Don Perry	Director	January 27, 2010 -
Chuck Page	Director	February 14, 2007 -
Ken Yeager	Board Chairperson	January 10, 2007 -

Management of the District is provided by Robert R. Reid, District Manager and Engineer. Mr. Reid has been with the District for 18 years.

Programs and Achievements

Septic System Abandonment Program The Septic System Abandonment Program has been in effect since 1986 to encourage property owners to abandon their septic systems and connect to the System. The District designs and constructs the main and lateral sewers and property owners repay the costs when they connect. The District offers a low interest loan program for property owners to finance these costs. Repayments under this program are recorded as revenues in the District’s financial statements.

Sewer Main and Lateral Cleaning In fiscal year 2008/09, the District cleaned approximately 1,970,000 lineal feet of sewer main and 600 laterals. In addition, approximately 166,000 lineal feet of sewer mains were televised, providing a condition assessment. This effort allows the District to prioritize future repair and replacement projects. Also in fiscal year 2008/09 the

District initiated a lateral maintenance and cleanout locating system based on GPS. The program will locate and plot laterals and cleanouts as the District transitions to electronic sewer maps.

Retirement Funding In 2009, the District became a participant in the California Employers Retirement Benefits Trust, a CalPERS program. By contributing to the California Employers Retirement Benefits Trust, the District will prefund its retirement healthcare benefits.

Facilities

The District's wastewater system (the "System") includes collection and disposal facilities with treatment provided by the San Jose-Santa Clara Pollution Control Plant (the "Plant"). The District maintains 414 miles of main and trunk sewers and 200 miles of sewer laterals, for a total of 614 miles of sewer lines. In fiscal year 2008/09 the District collected and conveyed for treatment an average of 10.3 million gallons per day (mgd) of wastewater.

The District has entered into agreements with the cities of San Jose and Santa Clara (the "Capacity Agreement") relating to the treatment of District effluent at the Plant. The Capacity Agreement provides for treatment of up to 12.052 mgd for peak five-day treatment capacity of District effluent. The term of the Capacity Agreement expires in January 1, 2031.

In accordance with the Capacity Agreement, the District is required to bear a portion of the costs of maintenance and operation of the Plant. These costs are allocated based on the District's actual yearly discharge into the Plant, as a percentage of total discharge to the plant.

The District is also required to pay a portion of capital costs based on the District's capacity rights percentage, 12.05 mgd / 167 mgd, or about 7.25%. (See "Capital Improvement Program" below).

Capital Improvement Program

The District maintains and updates annually a five-year capital improvement program (CIIP). This CIP includes both joint projects that the District will complete in conjunction with the other member agencies of the San Jose/Santa Clara Water Pollution Control Plant (WPCP) and District-only projects which include items such as sewer rehabilitation and septic system abandonment.

The District anticipates funding the entire 5-year CIP through "pay-as-you-go" financing (primarily through the use of accumulated capital reserve funds). The District does not anticipate issuing any additional debt to finance the CIP.

Table 3 details the five-year capital improvement program.

**Table 3 ■ West Valley Sanitation District
Sewer Revenue Refunding Bonds, Series 2010
Five-Year Capital Improvement Program**

Projects	Budget 2009/10	Projected 2010/11	Projected 2011/12	Projected 2012/13	Projected 2013/14
<u>Joint Projects with San Jose/Santa Clara</u>					
Wastewater Treatment Plant	\$2,685,000	\$4,111,000	\$2,707,000	\$3,046,000	\$3,022,000
<u>Joint Trunk Sewer Projects</u>	<u>246,000</u>	<u>260,000</u>	<u>7,000</u>	<u>1,500,000</u>	<u>400,000</u>
Total Joint Projects	\$2,931,000	\$4,371,000	\$2,714,000	\$4,546,000	\$3,422,000
<u>District Projects</u>					
District Sewer Rehabilitation	\$1,152,000	\$2,210,000	\$1,700,000	\$2,330,000	\$2,230,000
Septic System Abandonment	528,000	10,000	10,000	10,000	10,000
Miscellaneous Construction	245,000	235,000	235,000	235,000	235,000
<u>Non-construction Capital</u>	<u>523,000</u>	<u>60,000</u>	<u>60,000</u>	<u>60,000</u>	<u>60,000</u>
Total District Projects	\$2,448,000	\$2,515,000	\$2,005,000	\$2,635,000	\$2,535,000
Total Capital Expenditures	\$5,379,000	\$6,886,000	\$4,719,000	\$7,181,000	\$5,957,000

Note: Project costs escalated to year of construction

Service Area and Customers

As mentioned, the population of the service area is currently estimated to be 112,000 in the Cities of Campbell, Monte Sereno, two-thirds of Saratoga, the Town of Los Gatos, and adjacent county areas. The total number of accounts is 45,726 with residential customers making up 95 percent of the total number of accounts. The system is primarily built-out, however there is some level of increased density and infill development taking place within the service area.

Table 4 details the current inventory of connections by customer class for different areas within the District's service area.

**Table 4 ■ West Valley Sanitation District
Sewer Revenue Refunding Bonds, Series 2010
Sewer Connections by Area, FY 2008/09**

	Single Family	Multi-Family	Industrial/ Commercial Complexes	Total Connections	Estimated Population Served
City of Cambell	9,710	6,968	973	17,651	40,161
Town of Los Gatos	9,032	3,142	818	12,992	30,296
City of Monte Sereno	1,173	45	6	1,224	3,579
City of Saratoga	8,132	340	189	8,661	23,637
Unincorporated Areas of Santa Clara County	4,632	426	140	5,198	14,668
Total	32,679	10,921	2,126	45,726	112,341

Source: West Valley Sanitation District Annual Report 2008-2009

Table 5 details the top five customers by revenue for 2008/09, and the percent of total District revenue these customers comprise. The largest customer of the District is Valley Medical Center, which is the primary public hospital serving the county and has been in its present location since 1876. Together, the top five customers represent about 4.7% of annual service charge revenues.

**Table 5 ■ West Valley Sanitation District
Sewer Revenue Refunding Bonds, Series 2010
Largest Customers By Revenue, FY 2008/09**

Customer	Description	Service Charges	% of Total Annual Service Charges
Valley Medical Center	Hospital	\$274,000	1.9%
Pruneyard Shopping Center	Shopping, restaurants, hotel	159,000	1.1%
San Jose Water Company	Utility	100,000	0.7%
Sobrato Land Holdings	Multi-residential	83,000	0.6%
West Valley College	Community college	<u>74,000</u>	0.5%
Total		\$690,000	4.7%

Source: West Valley Sanitation District

Rates

The District has the power to establish rates and charges as needed to operate the System. Its charges are established by its governing board and are not subject to review or approval by any other agency. The District principally relies on the following charges and fees: charges for services, connection fees and miscellaneous charges.

The District charges a flat monthly service fee for single family and multi-family residential customers. The service fees for non-residential customers are based on water usage and loadings to the wastewater system. Fees are collected annually through the Santa Clara County property tax rolls. The District participates in the Teeter Plan with Santa Clara County, in which the county effectively guarantees collection of the service charges. As such, there is no risk of delinquency to the District.

The last rate increase went into effect in July of 2007 and rates have not increased since then. The District recently started Board action to increase sewer rates for the next three fiscal years. The projected program, reflected in Table 12, is a 5% increase in 2010/11, followed by 6% in both 2011/12 and 2012/13.

Table 6 summarizes the current sewer service charge rate structure.

**Table 6 ■ West Valley Sanitation District
Sewer Revenue Refunding Bonds, Series 2010
Sewer Service Charges, FY 2009/10**

Effective Date (1)	July 1 2007
Sewer Service Charges	
Residential (Monthly)	
Single Family	\$23.35
Multi-family or Mobile Home	16.30
Commercial Sewer Service Charge (per HCF) (2)	
Restaurant	\$4.61
Hotel/Motel	2.39
Gas Station - Repair	2.55
Domestic Laundry	2.09
Retail/Office/Misc	2.48
Institutional (per HCF) (2)	
Hospitals	\$2.22
Schools	2.79
Grouped Industries (per HCF) (2)	
Winery	\$7.15
Printing Works	3.31
Machinery Manufacturing	3.47
Electrical Equipment	2.34
Film Service	2.46
Plating Works	2.24
Industrial Laundry	4.66
Car Wash	1.88

(1) Sewer service rates have not increased since fiscal year 2007-08

(2) Commercial usage is estimated using actual water usage

Connection Fees

New customers connecting to the water system are required to pay a number of one-time fees and charges prior to receiving sewer service from the District. These fees include the following:

- **Sewer Connection Fee** – The Connection Fee for a new residential customer is \$7,622.23. Non-residential customers are charged based on wastewater flow.
- **Treatment Plant Capacity Fee** – The Treatment Plant Capacity Fee for a single family residential customer is \$1,288.00 and the fee for a multi-family residential customer is

\$1,120.00. The fees for non-residential connections are calculated based on the flow and strength of the wastewater from the property.

Regional Sewer Service Charge Rate Survey

Table 7 shows monthly single family residential sewer service rates for the District compared to a number of other regional agencies. In cases where a volume rate applies, the rates shown are based on monthly discharge of 10 hundred cubic feet of wastewater flow.

**Table 7 ■ West Valley Sanitation District
Sewer Revenue Refunding Bonds, Series 2010
Regional Sewer Service Charge Survey**

Agency	Location	Monthly Charge (1) (2)
City of Santa Clara	Santa Clara	\$16.30
Union Sanitary District	Union City, Fremont, Newark	23.00
West Valley Sanitation District	Campbell, Los Gatos, Monte Sereno, Saratoga, unincorporated Santa Clara Valley	23.35
City of Mountain View	Mountain View	24.20
Dublin San Ramon Services District	Dublin, San Ramon, Pleasanton, Dougherty Valley	24.54
City of Palo Alto	Palo Alto	24.65
Fairfield-Suisun Sewer District	Fairfield, Suisun, Travis Air Force Base, Cordelia	25.49
Delta Diablo Sanitation District	Bay Point (Zone 1)	26.68
City of San Jose	San Jose, CA	31.00
City of Milpitas ³	Milpitas	35.47
East Bay Municipal Utilities District	Oakland	38.47
San Francisco Public Utilities	San Francisco, CA	76.60

(1) Based on 13 HCF of water use or 10 HCF of wastewater discharge for agencies that charge on a volumetric basis

(2) FY 2009/10 Rates

(3) Effective April 19, 2010

DISTRICT FINANCES

Together, the Board of Directors and District staff has focused on consistent, conservative management of the District's fiscal affairs over the last decade, and the benefits of this approach are easily seen in the excellent condition of the District's finances. Rate increases have been judiciously applied to keep pace with incrementally rising expenses, while significant cash reserves have been dedicated to funding ongoing repairs and replacement of the sewer collection system as well as stabilizing rates, which continue to be among the lowest in the region. The District maintains very conservative operating and capital reserve policies, and as an affluent and mostly built-out area, the service area was not greatly impacted by the housing downturn and recession.

Table 8 summarizes the last three fiscal years of assets and liabilities for the District. Importantly, total unrestricted cash has averaged \$29.5 million over the last three years (never falling below \$27.0 million), while long-term debt has decreased from \$17.5 million to \$12.7 million through the early retirement of a portion of the District's share of outstanding bonds for the joint treatment plant.

**Table 8 ■ West Valley Sanitation District
Sewer Revenue Refunding Bonds, Series 2010
Change in Net Assets, 2006/07 through 2008/09**

	Actual 2006/07	Actual 2007/08	Actual 2008/09
ASSETS			
Current Assets			
Cash and investments	\$30,455,139	\$31,152,463	\$27,026,013
Accounts Receivable	300,699	225,472	221,692
Due from other government	25,882	25,882	0
Interest Receivable	324,911	241,152	95,520
Prepaid expenses	64,763	76,244	254,697
<u>Supplies and tools</u>	<u>93,203</u>	<u>93,255</u>	<u>102,440</u>
Subtotal	\$31,264,597	\$31,814,468	\$27,700,362
Capital Assets (net of depreciation and bonds payable)	\$50,928,235	\$51,805,614	\$52,348,080
Other Assets			
Cash and Investments - Restricted	\$1,329,860	\$1,442,428	\$1,857,351
Capacity Rights in Treatment Plant	20,228,011	20,870,085	21,973,075
<u>Accounts receivable, future tax roll</u>	<u>442,695</u>	<u>318,743</u>	<u>228,790</u>
Subtotal	\$22,000,566	\$22,631,256	\$24,059,216
Total Assets	\$104,193,398	\$106,251,338	\$104,107,658
LIABILITIES			
Current Liabilities			
Accounts Payable	\$1,007,892	\$695,321	\$959,078
Accrued interest payable	175,083	165,077	137,299
Current Portion of Long-Term Debt	913,524	942,129	969,778
Compensated Absences	185,040	178,367	221,371
Customer Deposits	348,220	345,010	215,244
Hillside Deposits	527,520	610,841	684,827
<u>Storm Drain Deposits</u>	<u>564,390</u>	<u>609,538</u>	<u>536,632</u>
Subtotal	\$3,721,669	\$3,546,283	\$3,724,229
Long-Term Liabilities			
Long-Term Debt	\$17,450,413	\$16,523,400	\$12,694,297
<u>Accrued vacation and sick leave</u>	<u>170,719</u>	<u>175,024</u>	<u>208,331</u>
Subtotal	\$17,621,132	\$16,698,424	\$12,902,628
Total Liabilities	\$21,342,801	\$20,244,707	\$16,626,857
NET ASSETS			
Invested in Capital Assets and Capacity Rights	\$52,617,905	\$55,045,093	\$60,519,781
<u>Unrestricted</u>	<u>30,233,371</u>	<u>30,961,538</u>	<u>26,961,020</u>
Total Net Assets	\$82,851,276	\$86,006,631	\$87,480,801

Source: West Valley Sanitation District audited financial statements.

Table 9 details the last three years of operating performance for the District. The District generates significant positive net income annually; annual net income has ranged from \$3.5 million in 2006/07 to \$1.5 million in 2008/09, after accounting for all depreciation and amortization as well as interest on existing bonds.

**Table 9 ■ West Valley Sanitation District
Sewer Revenue Refunding Bonds, Series 2010
Revenues and Expenses, 2006/07 through 2008/09**

	Actual 2006/07	Actual 2007/08	Actual 2008/09
Operating Revenues			
Sewer Service Charges	\$13,844,748	\$14,560,626	\$14,779,526
Clean Water Program (NPS)	443,379	457,071	513,821
<u>Other Operating Revenues</u>	<u>442,997</u>	<u>477,862</u>	<u>318,097</u>
Total Operating Revenues	\$14,731,124	\$15,495,559	\$15,611,444
Other Revenues			
Connection Fees	\$849,984	\$915,677	\$490,984
Capacity Fees	513,283	277,302	241,898
Contributed Facilities	352,460	0	17,162
Interest Income	1,322,143	1,264,140	695,703
<u>Other Income</u>	<u>12,161</u>	<u>6,379</u>	<u>17,393</u>
Total Other Revenues	\$3,050,031	\$2,463,498	\$1,463,140
Total Revenues	\$17,781,155	\$17,959,057	\$17,074,584
Operating Expenses			
Operating Expenses	\$10,156,255	\$10,575,101	\$11,206,477
<u>Depreciation and Amortization</u>	<u>3,447,779</u>	<u>3,540,328</u>	<u>3,615,998</u>
Total Operating Expenses	\$13,604,034	\$14,115,429	\$14,822,475
Other Expenses			
Interest on Bonds/Debt	\$722,821	\$688,273	\$619,939
<u>Contributions to OPEB</u>	<u>0</u>	<u>0</u>	<u>158,000</u>
Total Other Expenses	\$722,821	\$688,273	\$777,939
Total Expenses	\$14,326,855	\$14,803,702	\$15,600,414
Net Income	\$3,454,300	\$3,155,355	\$1,474,170

Source: West Valley Sanitation District, Basic Financial Statements

Outstanding Debt and Long-Term Obligations

As of April 21, 2010, the District has no **direct** obligations on System Net Revenues other than the Series 2010 Bonds (which are themselves refunding the Series 2000C Bonds).

The obligations listed in Table 10 below are **not** direct obligations of the District nor are they secured by a pledge of or lien on System Net Revenues. Rather, the obligations shown represent the District's share of certain capital costs under the Capacity Agreement. Under the Capacity Agreement, the District is obliged to fund certain capital costs relating to sewage treatment facilities owned by the City of San Jose and Santa Clara in exchange for sewage treatment capacity. The joint San Jose/Santa Clara Authority has financed these capital costs with three

revenue bond issues and a state loan, and the District funds its share of these costs through its annual payments to the Authority. See “Facilities” above.

**Table 10 ■ West Valley Sanitation District
Sewer Revenue Refunding Bonds, Series 2010
Other Long Term Obligations**

<u>Issue</u>	<u>Final Maturity</u>	<u>Rate</u>	<u>Amount Outstanding</u>
Sewer Revenue Refunding Bonds Series 2005A	11/15/2016	3.5% to 4%	\$3,880,053
State Revolving Fund Loan	6/30/2019	1.803%	2,913,409

Source: West Valley Sanitation District Basic Financial Statements

Cash Reserves

The District has significant unrestricted cash reserves available for the purposes of funding operating expenses and capital projects. The Board annually reviews its policies with respect to these reserves, which currently require maintenance of minimum cash reserves (reserve fund target) sufficient to fund at least 60% of annual operating expenses and 100% of the following year’s capital expenses.

As of June 30, 2009, the fair market value of the District’s cash and investments totaled \$28.9 million. The 2009/10 minimum reserve fund target is approximately \$12.3 million.

**Table 11 ■ West Valley Sanitation District
Sewer Revenue Refunding Bonds, Series 2010
Cash and Investments**

	2007/08	2008/09
Unrestricted		
County Treasury	\$30,997,619	\$26,915,332
Cash on Hand at District	700	700
<u>Cash Deposits with Banks</u>	<u>154,144</u>	<u>109,981</u>
Total Unrestricted	\$31,152,463	\$27,026,013
Restricted		
County Treasury - Restricted	\$1,442,428	\$1,285,063
<u>Held by City of San Jose for debt service reserve</u>	<u>0</u>	<u>572,288</u>
Total Restricted	\$1,442,428	\$1,857,351
Total Cash Reserves	\$32,594,891	\$28,883,364

Source: West Valley Sanitation District Basic Financial Statements

Projected Operating Results and Debt Service Coverage

Table 12 details the District's historical (2007/08 through 2008/09) operating results and debt service coverage, as well as projected debt service coverage from the current budget year through 2013/14. As noted previously, the Series 2010 Bonds are the only direct obligations anticipated for the District; the Series 2005A and State Revolving Fund loans do not have a lien on System Net Revenues.

The District's estimated projected operating results for the fiscal years ending June 30, 2011 through June 30, 2014 are set forth below, and reflect certain significant assumptions concerning future events and circumstances. The assumptions set forth in part in the footnotes to the chart are material in the development of the District's financial projections, and variations in the assumptions may produce substantially different financial results. Actual operating results achieved during the projection period may vary from those presented in the forecast and such variations may be material.

**Table 12 ■ West Valley Sanitation District
Sewer Revenue Refunding Bonds, Series 2010
Historical and Projected Debt Service Coverage**

	Actual 2007/08	Actual 2008/09	Budget 2009/10	Projected			
				2010/11	2011/12	2012/13	2013/14
				Rate Increase			
				5%	6%	6%	
System revenues (1)							
Sewer Service Charges (2)	\$14,560,626	\$14,779,526	\$14,853,000	\$15,596,000	\$16,532,000	\$17,524,000	\$17,612,000
Clean Water Program (NPS)	457,071	513,821	525,000	530,000	535,000	540,000	545,000
Other operating revenues (3)	477,862	318,097	413,000	421,000	429,000	438,000	447,000
Interest income (4)	1,264,140	695,703	829,000	562,500	562,500	562,500	562,500
Total System Revenues	\$16,759,699	\$16,307,147	\$16,620,000	\$17,109,500	\$18,058,500	\$19,064,500	\$19,166,500
Operations and maintenance expense (5)							
District operations	\$5,023,050	\$5,587,418	\$6,338,428	\$6,560,000	\$6,790,000	\$7,028,000	\$7,274,000
Treatment plant operations share	5,552,051	5,619,059	5,838,500	6,043,000	6,255,000	6,474,000	6,701,000
Total operations and maintenance expense	\$10,575,101	\$11,206,477	\$12,176,928	\$12,603,000	\$13,045,000	\$13,502,000	\$13,975,000
Net Revenue Available for Debt Service	\$6,184,598	\$5,100,670	\$4,443,072	\$4,506,500	\$5,013,500	\$5,562,500	\$5,191,500
Debt Service - Direct Debt							
Sewer Revenue Bonds Series 2000C	\$492,128	\$490,828	\$489,163	\$0	\$0	\$0	\$0
<u>Sewer Revenue Refunding Bonds Series 2010</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>460,000</u>	<u>460,000</u>	<u>460,000</u>	<u>460,000</u>
Subtotal direct debt	\$492,128	\$490,828	\$489,163	\$460,000	\$460,000	\$460,000	\$460,000
Coverage ratio for direct debt	12.57	10.39	9.08	9.80	10.90	12.09	11.29
Debt service - Other							
State Revolving Fund loan	\$377,100	\$377,100	\$377,100	\$377,100	\$377,100	\$377,100	\$377,100
Sewer Revenue Refunding Bonds 2005A	650,000	650,000	650,000	650,000	650,000	650,000	650,000
<u>Sewer Revenue Refunding Bonds 2005B (6)</u>	<u>142,000</u>	<u>2,874,154</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Subtotal other debt service	\$1,169,100	\$3,901,254	\$1,027,100	\$1,027,100	\$1,027,100	\$1,027,100	\$1,027,100
Coverage ratio for all debt	3.72	3.36	2.93	3.03	3.37	3.74	3.49

(1) Does not include one-time capacity fees or connection fees

(2) Assumes 5% rate increase in 2010/11, 6% in 2011/12 and 6% in 2012/13; assumes no net customer growth during 2010/11 through 2012/13

(3) Permit, inspection, and other miscellaneous fees including labor and overhead billed for services provided by District staff

(4) Interest earnings during projection period assume 2.5% annual interest rate on \$22.5 million average fund balance (current balance is \$27 million)

(5) Operating expenses escalate by 3.5% annually during projection period

(6) District paid off Series 2005B variable rate debt in 2008/09; lump sum payment of \$2.874 million not included in coverage calculation for 2008/09

Financial Statements

A copy of the most recent audited financial statements of the District prepared by the District's auditor (the "Auditor") is included in Appendix A hereto (the "Financial Statements"). The

Auditor's letter concludes that the audited financial statements present fairly, in the material respects, the financial position of the District as of June 30, 2009 and the results of their operations and cash flows for the year ended in conformity with generally accepted accounting principles. The Financial Statements should be read in their entirety. The Auditor has not reviewed or audited this Official Statement.

CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES

Article XIII B

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

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

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

The District is of the opinion that their service charges do not exceed the costs they reasonably bear in providing such services and therefore are not subject to the limits of Article XIII B.

Articles XIIC and XIID of the California Constitution

Proposition 218, a State ballot initiative known as the “Right to Vote on Taxes Act,” was approved by the voters on November 5, 1996. The initiative added Articles XIIC and XIID to the California Constitution, creating additional requirements for the imposition by most local governments of “general taxes,” “special taxes,” “assessments,” “fees,” and “charges.” Proposition 218 became effective, pursuant to its terms, as of November 6, 1996, although compliance with some of its provisions was deferred until July 1, 1997, and certain of its provisions purport to apply to any tax imposed for general governmental purposes (*i.e.*, “general taxes”) imposed, extended or increased on or after January 1, 1995 and prior to November 6, 1996.

Article XIID imposes substantive and procedural requirements on the imposition, extension or increase of any “fee” or “charge” subject to its provisions. A “fee” or “charge” subject to Article XIID includes any levy, other than an *ad valorem* tax, special tax or assessment, imposed by an agency upon a parcel or upon a person as an incident of property ownership. Article XIID prohibits, among other things, the imposition of any proposed fee or charge, and, possibly, the increase of any existing fee or charge, in the event written protests against the proposed fee or charge are presented at a required public hearing on the fee or charge by a majority of owners of the parcels upon which the fee or charge is to be imposed. Except for fees and charges for water, sewer and refuse collection services, the approval of a majority of the property owners subject to the fee or charge, or at the option of the agency, by a two-thirds vote of the electorate residing in the affected area, is required within 45 days following the public hearing on any such proposed new or increased fee or charge. The California Supreme Court decisions in *Richmond v. Shasta Community Services District*, 32 Cal. 4th 409 (2004) (“*Richmond*”), and *Bighorn-Desert View Water Agency v. Verjil* (published July 24, 2006) (“*Bighorn*”) have clarified some of the uncertainty surrounding the applicability of Section 6 of Article XIID to service fees and charges. In *Richmond*, the Shasta Community Services District charged a water capacity fee, which included a capacity charge for capital improvements to the water system and a fire suppression charge. The Court held that both the capacity charge and the fire suppression charge were not subject to Article XIID because a water capacity fee is not a property-related fee or charge because it results from the property owner’s voluntary decision to apply for the connection. In both *Richmond* and *Bighorn*, however, the Court stated that a fee for ongoing water service through an existing connection is imposed “as an incident of property ownership” within the meaning of Article XIID, rejecting, in *Bighorn*, the water agency’s argument that consumption-based water charges are not imposed “as an incident of property ownership” but as a result of the voluntary decisions of customers as to how much water to use.

Article XIID also provides that “standby charges” are considered “assessments” and must follow the procedures required for “assessments” under Article XIID and imposes several procedural requirements for the imposition of any assessment, which may include (1) various notice requirements, including the requirement to mail a ballot to owners of the affected property; (2) the substitution of a property owner ballot procedure for the traditional written protest procedure, and providing that “majority protest” exists when ballots (weighted according to proportional financial obligation) submitted in opposition exceed ballots in favor of the assessments; and (3) the requirement that the levying entity “separate the general benefits from the special benefits conferred on a parcel” of land. Article XIID also precludes standby charges for services that are not immediately available to the parcel being charged.

Article XIID provides that all existing, new or increased assessments are to comply with its provisions beginning July 1, 1997. Existing assessments imposed on or before November 5, 1996, and “imposed exclusively to finance the capital costs or maintenance and operations expenses for [among other things] water” are exempted from some of the provisions of Article XIID applicable to assessments. The District’s current rates and charges have been adopted in compliance with the provisions of Article XIID.

Article XIIC extends the people’s initiative power to reduce or repeal existing local taxes, assessments, fees and charges. This extension of the initiative power is not limited by the terms of Article XIIC to fees, taxes, assessment fees and charges imposed after November 6, 1996 and

absent other authority could result in retroactive reduction in any existing taxes, assessments, fees or charges. In *Bighorn*, the Court concluded that under Article XIIC local voters by initiative may reduce a public agency's water rates and delivery charges. The Court noted, however, that it was not holding that the authorized initiative power is free of all limitations, stating that it was not determining whether the electorate's initiative power is subject to the public agency's statutory obligation to set water service charges at a level that will "pay the operating expenses of the agency, ... provide for repairs and depreciation of works, provide a reasonable surplus for improvements, extensions, and enlargements, pay the interest on any bonded debt, and provide a sinking or other fund for the payment of the principal of such debt as it may become due."

Future Initiatives

Articles XIIB, XIIC and XIID were adopted as measures that qualified for the ballot pursuant to California's initiative process. From time to time other initiatives could be proposed and adopted affecting the District's revenues or ability to increase revenues.

RISK FACTORS

The following section describes certain risk factors affecting the payment of and security for the Bonds. The following discussion of risks is not meant to be an exhaustive list of the risks associated with the purchase of the Bonds and does not necessarily reflect the relative importance of the various issues. Potential investors are advised to consider the following factors, along with all other information in this Official Statement, in evaluating the Bonds. There can be no assurance that other risk factors will not become material in the future.

General

The payment of principal of and interest on Bonds are payable solely from and secured solely by a pledge of System Net Revenues under the Indenture, together with amounts on deposit in certain funds and accounts held by the Trustee. No assurance can be made that System Net Revenues, estimated or otherwise, will be realized in an amount sufficient to pay the principal of and interest on the Bonds. The realization of future System Net Revenues is subject to, among other things, the capabilities of management of the District, the ability of the District to provide wastewater services to its customers, and the ability of the District to establish and maintain charges sufficient to provide the required debt service coverage as well as pay for operating and maintenance expenses.

Among other matters, general and local economic conditions and changes in law and government regulations (including initiatives and moratoriums on growth) could adversely affect the amount of System Revenues realized by the District and ultimately the ability of the District to pay interest on and principal of the Bonds.

Earthquakes and Other Natural Disasters

Earthquakes and other natural disasters could interrupt operation of the System and result in unanticipated expenses, thereby interrupting the ability of the District to meet its financial obligations. The District is not obligated under the Indenture to procure and maintain earthquake insurance, nor does the District plan to procure and maintain earthquake insurance.

Investment of Funds

All funds and accounts held under the Indenture are required to be invested in Authorized Investments as provided under the Indenture. The District invests its cash pursuant to an investment policy approved from time to time by its Board. See the District's financial statements attached as Appendix A for a summary of the District's investments as of the date of such financial statements. All investments, including the Authorized Investments and those authorized by law from time to time for investments by public agencies contain a certain degree of risk. Such risks include, but are not limited to, a lower rate of return than expected, loss of market value and loss or delayed receipt of principal. The occurrence of these events with respect to amounts held under the Indenture or by the District could have a material adverse effect on the security of the Bonds.

Limitations on Remedies and Bankruptcy

The rights and remedies provided in the Indenture may be limited by and are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar

laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, and to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State of California. The various opinions of counsel to be delivered with respect to such documents, including the opinion of Bond Counsel (the form of which is attached as Appendix D), will be similarly qualified.

The enforcement of the remedies provided in the Indenture could prove both expensive and time consuming. In the event of a default, the Trustee is not empowered to sell the any part of the System in order to pay debt service on the Bonds. In addition, the rights and remedies provided in the Indenture may be limited by and are subject to provisions of the federal bankruptcy laws, as now or hereafter enacted, and to other laws or equitable principles that may affect creditors' rights. If the District were to file a petition under Chapter 9 of the Bankruptcy Code (Title 11, United States Code), the Bondholders and the Trustee could be prohibited or severely restricted from taking any steps to enforce their rights under the Indenture and from taking any steps to collect amounts due from the District under the Indenture.

CONCLUDING INFORMATION

Continuing Disclosure

The District has covenanted for the benefit of the holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to the District. These covenants have been made in order to assist the underwriters in complying with SEC Rule 12c2-12(b)(5). The District is in compliance with its continuing disclosure requirements. A form of the Continuing Disclosure Certificate is attached in Appendix C.

Legal Matters

The validity of the Bonds are subject to the approval of Hawkins Delafield & Wood LLP, San Francisco, California, acting as Bond Counsel. A copy of the proposed form of legal opinion of Bond Counsel is attached hereto as Appendix D.

Bank Qualified Obligations

The District has designated the Bonds as “qualified tax-exempt obligations,” for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended.

Tax Matters

Opinion of Bond Counsel

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the District, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”) and (ii) interest on the Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the District in connection with the Bonds, and Bond Counsel has assumed compliance by the District with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Bonds from gross income under Section 103 of the Code. The provisions of the American Recovery and Reinvestment Act of 2009 relating to the treatment of interest with respect to certain tax-exempt securities do not apply to the Bonds.

In addition, in the opinion of Bond Counsel to the District, under existing statutes, interest on the Bonds is exempt from personal income taxes imposed by the State of California.

Bond Counsel expresses no opinion regarding any other Federal or state tax consequences with respect to the Bonds. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update, revise or supplement its opinion to reflect any action hereafter taken or not taken, or any facts or circumstances that may hereafter come to its attention, or changes in law or in interpretations thereof that may hereafter occur, or for any other reason. Bond Counsel expresses no opinion on the effect of any action

hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Bonds, or under state and local tax law.

Certain Ongoing Federal Tax Requirements and Covenants

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Bonds in order that interest on the Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal government. Noncompliance with such requirements may cause interest on the Bonds to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The District has covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest with respect to the Bonds from gross income under Section 103 of the Code.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral Federal income tax matters with respect to the Bonds. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of a Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the Bonds.

Prospective owners of the Bonds should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for Federal income tax purposes. Interest on the Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Original Issue Discount

“Original issue discount” (“OID”) is the excess of the sum of all amounts payable at the stated maturity of a Bond (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the “issue price” of a maturity means the first price at which a substantial amount of the Bonds of that maturity was sold (excluding sales to bond houses, brokers, or similar persons acting in the capacity as underwriters, placement agents, or wholesalers). In general, the issue price for each maturity of Bonds is expected to be the initial public offering price set forth on the cover page of the Official Statement. Bond Counsel further is of the opinion that, for any Bonds having OID (a “Discount Bond”), OID that has accrued and is properly allocable to the owners of the Discount Bonds under Section 1288 of the Code is excludable from gross income for Federal income tax purposes to the same extent as other interest on the Bonds.

In general, under Section 1288 of the Code, OID on a Discount Bond accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Discount Bond. An owner's adjusted basis in a Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such Bond. Accrued OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Bond even though there will not be a corresponding cash payment.

Owners of Discount Bonds should consult their own tax advisors with respect to the treatment of original issue discount for Federal income tax purposes, including various special rules relating thereto, and the state and local tax consequences of acquiring, holding, and disposing of Discount Bonds.

Bond Premium

In general, if an owner acquires a Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the Bond after the acquisition date (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates), that premium constitutes "bond premium" on that Bond (a "Premium Bond"). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the Bond premium over the remaining term of the Premium Bond, based on the owner's yield over the remaining term of the Premium Bond determined based on constant yield principles (in certain cases involving a Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such Bond). An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner's regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost. Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for Federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Bonds.

Information Reporting and Backup Withholding

Information reporting requirements apply to interest paid on tax-exempt obligations, including the Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, "Request for Taxpayer Identification Number and Certification," or unless the recipient is one of a limited class of exempt recipients, including corporations. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding," which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in

the manner set forth in the Code. For the foregoing purpose, a “payor” generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Bonds from gross income for Federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner’s Federal income tax once the required information is furnished to the Internal Revenue Service.

Miscellaneous

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Bonds under Federal or state law and could affect the market price or marketability of the Bonds.

Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

Absence of Litigation

There is no action, suit, or proceeding known to be pending or threatened, restraining or enjoining the execution or delivery of the Bonds, in any way contesting or affecting the validity of the foregoing or any proceedings of the District taken with respect to any of the foregoing, or, if determined adversely to the District, which would have a material adverse affect on the finances or operations of the System.

Closing Documents

At the time of delivery of the Bonds to the successful bidder, the following documents will be furnished:

- **Signature and No-Litigation Certificate:** A certificate stating that the signatures on the Bonds are authentic and duly authorized and that, to the best of the District's knowledge after reasonable investigation, no litigation is pending, threatened, or in progress affecting the validity of the Bonds.
- **Certificate Concerning Official Statement:** A certificate, signed by a responsible official representing the District, to the effect that to the best of his or her knowledge and belief, and after reasonable investigation: (a) neither the Official Statement nor any amendment or supplement thereto contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; (b) since the date of the Official Statement no event has occurred which should have been set forth in an amendment or supplement to the Official Statement which has not been so set forth; and (c) there has been no material change in the operation or financial affairs of the District since the date of such Official Statement.

- **Receipt for Purchase Price:** The receipt of the appropriate District official showing that the purchase price of the Bonds, including interest accrued to the date of delivery (if any), has been received by the District.

Rating

Standard and Poor's ("S&P"), a division of The McGraw-Hill Companies, Inc., has assigned their municipal bond rating of **AA+** to the Series 2010 Bonds. Such rating reflects only the view of such organization and any desired explanation of the significance of such rating should be obtained from Standard & Poor's, Steuart Tower, Suite 1500, One Market, San Francisco, CA, United States, 94105. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that such rating will continue for any given period of time or that such rating will not be revised downward or withdrawn entirely by the rating agency, if in the judgment of such rating agency, circumstances so warrant. Any downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

Miscellaneous

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. Any statements made in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended merely as opinions and not as representations of fact. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this official statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in affairs in the District since the date thereof.

Execution of the Official Statement

The District has duly authorized the execution and delivery of this Official Statement.

West Valley Sanitation District

/s/ Robert Reid
Robert Reid
District Manager

the manner set forth in the Code. For the foregoing purpose, a “payor” generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Bonds from gross income for Federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner’s Federal income tax once the required information is furnished to the Internal Revenue Service.

Miscellaneous

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Bonds under Federal or state law and could affect the market price or marketability of the Bonds.

Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

Absence of Litigation

There is no action, suit, or proceeding known to be pending or threatened, restraining or enjoining the execution or delivery of the Bonds, in any way contesting or affecting the validity of the foregoing or any proceedings of the District taken with respect to any of the foregoing, or, if determined adversely to the District, which would have a material adverse affect on the finances or operations of the System.

Closing Documents

At the time of delivery of the Bonds to the successful bidder, the following documents will be furnished:

- **Signature and No-Litigation Certificate:** A certificate stating that the signatures on the Bonds are authentic and duly authorized and that, to the best of the District's knowledge after reasonable investigation, no litigation is pending, threatened, or in progress affecting the validity of the Bonds.
- **Certificate Concerning Official Statement:** A certificate, signed by a responsible official representing the District, to the effect that to the best of his or her knowledge and belief, and after reasonable investigation: (a) neither the Official Statement nor any amendment or supplement thereto contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; (b) since the date of the Official Statement no event has occurred which should have been set forth in an amendment or supplement to the Official Statement which has not been so set forth; and (c) there has been no material change in the operation or financial affairs of the District since the date of such Official Statement.

- **Receipt for Purchase Price:** The receipt of the appropriate District official showing that the purchase price of the Bonds, including interest accrued to the date of delivery (if any), has been received by the District.

Rating

Standard and Poor’s (“S&P”), a division of The McGraw-Hill Companies, Inc., has assigned their municipal bond rating of ___ to the Series 2010 Bonds. Such rating reflects only the view of such organization and any desired explanation of the significance of such rating should be obtained from Standard & Poor’s, Steuart Tower, Suite 1500, One Market, San Francisco, CA, United States, 94105. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that such rating will continue for any given period of time or that such rating will not be revised downward or withdrawn entirely by the rating agency, if in the judgment of such rating agency, circumstances so warrant. Any downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

Miscellaneous

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. Any statements made in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended merely as opinions and not as representations of fact. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this official statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in affairs in the District since the date thereof.

Execution of the Official Statement

The District has duly authorized the execution and delivery of this Official Statement.

West Valley Sanitation District

/s/ Robert Reid
Robert Reid
District Manager

APPENDIX A
BASIC FINANCIAL STATEMENTS
FOR YEAR ENDING JUNE 30, 2009

INDEPENDENT AUDITOR'S REPORT

Board of Directors
West Valley Sanitation District of Santa Clara County
Campbell, California

We have audited the basic financial statements of the West Valley Sanitation District, as of June 30, 2009 and 2008 and for the years then ended, as listed in the Table of Contents. These financial statements are the responsibility of the management of the District. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the basic financial statements present fairly in all material respects, the respective financial position of the business-type activities of the West Valley Sanitation District as of June 30, 2009 and 2008, the respective changes in financial position and cash flows for the years then ended, in conformity with generally accepted accounting principles in the United States of America.

As described in Note 10, the District implemented the provisions of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions*.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures to this information, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit the information and we express no opinion on it.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of West Valley Sanitation District. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



August 6, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of West Valley Sanitation District's annual financial report presents management's discussion and analysis of the District's financial performance during the fiscal year that ended June 30, 2009. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- District net assets increased \$1,474,170 or 1.7% as a result of this year's operations. Last year the increase was \$3,155,355. The main reasons for the \$1,681,185 decrease from the prior year are:
 1. Increase in operating expenses \$ 80,481
 2. Increase in operating revenues (631,376)
 3. Increase in depreciation and amortization (75,670)
 4. Decrease in connection fees and contributed facilities (407,531)
 5. Decrease in interest income (568,457)
 6. Decrease in interest on bonds 68,334
 7. Contributions to OPEB trust (Note 10) (158,000)
 8. Other items 11,014
- The District's net operating income for the year was \$1,030,867. This is \$626,565 less than the previous year's \$1,657,432 net operating income. The net operating reduction was mainly caused by a slight increase in revenue (\$80,000) offset by increased salary and benefit costs (\$460,000), insurance (\$96,000) and depreciation (\$168,000).
- The District's nonoperating revenue decreased by \$1,054,620 from the previous year. This decrease is the result of reductions in revenue from connection fees (\$407,000) and interest income (\$568,000), the funding of employee medical benefits (\$158,000 - see note 10) and lower interest on bonds (\$68,000)
- Additions to property, plant and equipment were \$2,667,746. The District wrote off surplus and obsolete equipment having a cost of \$378,000 and depreciation of \$371,000. Fully depreciated subsurface lines with an estimated cost of \$1,038,750 were annexed by the City of San Jose. This also caused a reduction in sewer service charge revenue to the District. Additions to treatment plant capacity rights was \$2,585,742.

USING THIS ANNUAL REPORT

The financial section of this annual report consists of three parts: Management's Discussion and Analysis, Financial Statements, and Supplemental Information. The Financial Statements also include notes that explain in more detail some of the information contained in those statements.

REQUIRED FINANCIAL STATEMENTS

District financial statements report information about the District using accounting methods similar to those used by private sector companies. The Statement of Net Assets includes all District assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities). It also provides the basis for computing rate of return; evaluating the capital structure of the District; and assessing the liquidity and financial flexibility of the District. All of the current year's revenues and expenses are accounted for in the Statements of Revenues, Expenses, and Changes in Net Assets. This statement measures the success of District operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges. The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about District cash receipts, cash disbursements, and net changes in cash resulting from operations, investing, and capital and non-capital financing activities. It provides answers to such questions as "Where did the cash come from?", "For what was the cash used?", and "What was the change in cash balance during the reporting period?"

FINANCIAL ANALYSIS OF THE DISTRICT

The District prepares its budget on a cash basis and these financial statements are on an accrual basis. The following paragraphs show the variations from the current annual budget using cash received and expended during the year.

- The District's cash balance, excluding restricted cash funds, was \$1,779,000 lower than projected in the 2008-2009 budget because cash basis revenue was \$224,000 lower and cash basis expenditures \$1,555,000 higher than the budget.
- The major items in the \$224,000 revenue variance are as follows:

1. Sewer service charges - other	\$(66,000)
2. Permit and inspection fees	(215,000)
3. Clean water program	106,000
4. Interest income	(143,000)
5. Other items varying by less than \$50,000	94,000
- The major items in the \$1,555,000 expenditure variance are as follows:

1. Employee benefits	\$92,000
2. Treatment plant operating costs	588,000
3. Insurance	(94,000)
4. Information services	141,000
5. Long term debt (see note 5, item C)	(3,400,000)
6. General fixed assets	78,000
7. Subsurface lines and treatment plant, mainly carried over to future years	996,000
9. Other items varying by less than \$50,000	44,000
- The District's current assets decreased \$4,114,100 or 13%. This decrease was mainly from the early payment of long-term debt (see note 5, item C) and payment to the City of San Jose for a debt service reserve (see note 2, item B).
- The District's liabilities decreased by \$3,617,850 or 18% because of normal long term debt repayments and annual fluctuations in payments to vendors.

The following comparative financial statements show the net assets as of June 30, 2009 and 2008 (Table 1); the results of operations for the years then ended (Table 2), and capital assets for the years then ended (Table 3):

Statement of Net Assets

	Table 1			
	2009	2008	Percent of Increase (Decrease)	
Current assets	\$27,700,362	\$31,814,468	(\$4,114,106)	-12.90%
Restricted assets	1,857,351	1,442,428	414,923	28.80%
Property, plant and equipment	52,348,080	51,805,614	542,466	1.00%
Capacity rights in treatment plant	21,973,075	20,870,085	1,102,990	5.30%
Septic Tank Abandonment Plan balances due in future years	228,790	318,743	(89,953)	-28.20%
Total Assets	\$104,107,658	\$105,251,338	(\$2,143,680)	-2.00%
Long-term liabilities outstanding	\$12,902,628	\$16,699,424	(\$3,795,796)	-22.70%
Other liabilities	3,724,229	3,546,283	177,946	5.00%
Total liabilities	\$16,626,857	\$20,244,707	(\$3,617,850)	-17.90%
Net assets:				
Investment in property, plant and equipment and investment in treatment plant capacity rights; net of related debt	\$50,519,781	\$55,045,093	\$5,474,688	9.90%
Unrestricted	26,961,020	30,961,538	(4,000,518)	-12.90%
Total net assets	\$87,480,801	\$86,006,631	\$1,474,170	1.70%

Statement of Revenues, Expenses and Net Assets

	Table 2			
	2009	2008	Amount of Increase (Decrease)	
Operating revenues	\$15,853,342	\$15,772,861	\$80,481	0.5%
Interest income	895,703	1,264,140	(568,437)	-45.0%
Contributions - sewer lines and connection fees	505,146	915,677	(407,531)	-44.5%
Other income	17,393	6,379	11,014	172.7%
Total revenues	17,074,584	17,959,057	(884,473)	-4.9%
Operating expenses	11,206,477	10,575,101	631,376	6.0%
Depreciation and amortization	3,615,988	3,540,328	75,670	2.1%
Interest on bonds	619,939	688,273	(68,334)	-9.9%
Contributions to OPEB trust (Note 10)	158,000		158,000	
Total expenses	15,600,414	14,803,702	796,712	5.4%
Changes in net assets	1,474,170	3,155,355	(1,681,185)	-53.3%
Net assets at beginning of year	86,006,631	82,851,276	3,155,355	3.8%
Net assets at end of year	\$87,480,801	\$86,006,631	\$1,474,170	1.7%

WEST VALLEY SANITATION DISTRICT
OF SANTA CLARA COUNTY
STATEMENTS OF NET ASSETS
JUNE 30, 2009 AND 2008

ASSETS	2009	2008
Current Assets:		
Cash and investments (Note 2)	\$27,026,013	\$31,152,463
Accounts receivable	221,692	225,472
Due from other government	95,520	25,882
Accrued interest receivable	254,697	241,152
Prepaid expenses	102,440	76,244
Supplies and tools (Note 1F)	27,700,362	93,255
Total Current Assets	27,700,362	31,814,468
Restricted Assets:		
Cash and investments (Note 2)	1,857,351	1,442,428
Total Restricted Assets	1,857,351	1,442,428
Property, Plant, and Equipment (Note 3)		
Land and encasements	276,535	276,535
Subsurface lines	83,354,249	82,199,052
Office building and furniture	1,126,620	1,261,543
Maintenance building and equipment	3,613,020	3,382,402
Less accumulated depreciation	88,370,424	87,119,532
Total Property, Plant, and Equipment	36,022,344	35,313,918
Other Assets:		
Accounts receivable, future tax roll	228,790	318,743
Capacity rights in treatment plant (Note 4)	21,973,075	20,870,085
Total Other Assets	22,201,865	21,188,828
Total Assets	104,107,658	106,251,338

(Continued)

See accompanying notes to financial statements

CAPITAL ASSETS AND DEBT ADMINISTRATION
Capital Assets

Table 3	2009	2008	Amount of Increase (Decrease)
Property, Plant and Equipment			
Land and easements	\$276,535	\$276,535	\$0
Subsurface lines	83,354,249	82,199,052	1,155,197
Office building, furniture	1,126,620	1,261,543	-134,923
Operating building, equipment	3,613,020	3,382,402	230,618
Total property, plant and equipment	88,370,424	87,119,532	1,250,892
Capacity Rights in Treatment Plant			
Land	\$2,001,095	\$2,001,095	\$0
Other facilities	45,775,414	43,189,672	2,585,742
Total capacity rights in treatment plant	47,776,509	45,190,767	2,585,742
Total capital assets	136,146,933	132,310,299	3,836,634
Less:			
Accumulated depreciation and amortization	(61,625,778)	(59,634,600)	(2,191,178)
Related bonds payable	(13,901,374)	(17,630,606)	3,829,232
Capital assets, net of related debt	\$60,619,781	\$55,045,093	\$5,474,688

LONG TERM DEBT

Note #5 to the financial statements describes the District's long-term debt. No additional debt has been incurred since June 30, 2000. In September 2005 the District participated in the issuance of revenue bonds used to fully refund the 1995 Series A and B bond issue.

REQUESTS FOR INFORMATION

This financial report is designed to provide our customers and creditors with a general overview of District finances, and demonstrate District accountability for the money it receives. If you have any questions about this report, or need additional financial information, contact Robert R. Reid, District General Manager, at West Valley Sanitation District, 100 East Sunnyoaks Avenue, Campbell, California 95008, telephone (408) 378-2407, e-mail rreid@westvalleyсан.org.

WEST VALLEY SANITATION DISTRICT
OF SANTA CLARA COUNTY
STATEMENTS OF NET ASSETS
JUNE 30, 2009 AND 2008

LIABILITIES	2009	2008
Current Liabilities		
Accounts payable	959,078	695,321
Accrued interest payable	137,299	165,077
Long-term debt, current portion (Note 5)	969,778	942,129
Accrued vacation and sick-leave, current portion (Note 1G)	221,371	178,367
Total Current Liabilities	<u>2,287,526</u>	<u>1,980,894</u>
Liabilities Payable from Restricted Assets		
Customer deposits	215,244	345,010
Hillside deposits	684,827	610,841
Storm drain deposits	536,632	609,538
Total Liabilities Payable from Restricted Assets	<u>1,436,703</u>	<u>1,565,389</u>
Long-Term Liabilities		
Long-term debt (Note 5)	12,694,297	16,523,400
Accrued vacation and sick leave (Note 1G)	208,331	175,024
Total Long-term Liabilities	<u>12,902,628</u>	<u>16,698,424</u>
Total Liabilities	<u>16,626,857</u>	<u>20,244,707</u>
NET ASSETS (Note 8)		
Invested in capital assets and capacity rights, net of related debt	60,519,781	55,045,093
Unrestricted	26,961,020	30,961,538
Total Net Assets	<u>\$87,480,801</u>	<u>\$86,006,631</u>

See accompanying notes to financial statements

WEST VALLEY SANITATION DISTRICT
OF SANTA CLARA COUNTY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
OPERATING REVENUES:		
Sewer service charges	\$14,779,526	\$14,560,626
Permit, inspection and other fees	228,588	388,466
Labor and overhead billed	50,369	44,462
Clean water program (NPS)	513,821	457,071
Internal labor allocation	39,140	44,934
Capacity fees	241,898	277,502
Total Operating Revenues	<u>15,853,342</u>	<u>15,772,861</u>
OPERATING EXPENSES:		
Operating expenses	11,206,477	10,575,101
Depreciation and amortization	3,615,998	3,540,328
Total Operating Expenses	<u>14,822,475</u>	<u>14,115,429</u>
NET OPERATING INCOME	<u>1,030,867</u>	<u>1,657,432</u>
NONOPERATING REVENUE (EXPENSE)		
Connection fees (Note 11)	490,984	915,677
Contributed facilities (Note 7)	17,162	
Interest income	695,703	1,264,140
Interest on bonds	(619,939)	(688,273)
Contributions to OPEB trust (Note 10)	(158,000)	
Other income	14,168	6,379
Gain on disposal of equipment	3,225	
Nonoperating revenue, net	443,303	1,497,923
CHANGES IN NET ASSETS	<u>1,474,170</u>	<u>3,155,355</u>
NET ASSETS AT BEGINNING OF YEAR	<u>86,006,631</u>	<u>82,851,276</u>
NET ASSETS AT END OF YEAR	<u>\$87,480,801</u>	<u>\$86,006,631</u>

See accompanying notes to financial statements

WEST VALLEY SANITATION DISTRICT
OF SANTA CLARA COUNTY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$15,818,389	\$16,097,299
Payments to suppliers	(8,384,051)	(8,475,768)
Payments to employees	(2,669,996)	(2,425,805)
Cash Flows from Operating Activities	4,764,342	5,195,726
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Other income (expense)	14,168	6,379
Contributions to OPEB trust	(158,000)	
Net Cash Flows From Noncapital Financing Activities	(143,832)	6,379
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contributions	508,146	915,677
Acquisition and construction of capital assets	(5,232,347)	(5,059,102)
Principal paid on bonds	(3,801,454)	(898,408)
Interest paid on bonds	(647,717)	(698,279)
Cash Flows from Capital and Related Financing Activities	(9,173,372)	(5,740,112)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	841,335	1,347,899
Cash Flows from Investing Activities	841,335	1,347,899
NET CASH FLOWS	(3,711,527)	809,892
Cash and cash equivalents at beginning of year	32,594,891	31,784,999
Cash and cash equivalents at end of year	<u>\$28,883,364</u>	<u>\$32,594,891</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income	\$1,030,867	\$1,657,432
Adjustment to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation and amortization expense	3,615,998	3,540,328
Increase in accounts receivable	93,733	199,179
(Increase) in other current assets	(187,638)	(11,533)
Increase (decrease) in accounts payable and accrued liabilities	340,068	(314,939)
Increase (decrease) in deposits	(128,686)	125,259
Net cash provided by operating activities	<u>\$4,764,342</u>	<u>\$5,195,726</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Contributions of capital assets	<u>\$17,162</u>	

See accompanying notes to financial statements

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WEST VALLEY SANITATION DISTRICT
OF SANTA CLARA COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. *Description of the Reporting Entity*

The financial statements of West Valley Sanitation District of Santa Clara County (District) include the financial activities of the District as well as transactions made by the fiscal agent under authority granted by the District in various resolutions authorizing the issuance of revenue bonds. The District is a special district established as a sanitation district in the State of California and is exempt from federal income and State income taxes.

B. *The Financial Reporting Entity*

Although the nucleus of a financial reporting entity usually is a primary government, an organization other than a primary government, such as a stand-alone government, may serve as the nucleus for its financial reporting entity when the stand-alone government provides separately issued financial statements. A stand-alone government is a legally separate governmental organization that does not have a separately elected governing body and does not meet the definition of a component unit. West Valley Sanitation District of Santa Clara County meets the criteria as a stand-alone government, and accordingly, is accounted for and reported on as though it were a primary government.

C. *Basis of Presentation and Accounting*

Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States.

These Standards require that the financial statements described below be presented.

The Statement of Net Assets and the Statement of Activities display information about the West Valley Sanitation District. Business-type activities are financed in whole or in part by fees charged to external parties.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as interest income and connection fees, result from nonexchange transactions or ancillary activities.

Enterprise funds are accounted for on the flow of economic resources measurement focus utilizing full accrual accounting. Under this method, assets and revenues are recorded when earned, and liabilities and expenses are recorded when the related obligations are incurred. The District follows Statements and interpretations of the Financial Accounting Standards Board and its predecessors that were issued on or before November 30, 1989, in accounting for its business-type activities, unless they conflict with Government Accounting Standards Board pronouncements.

WEST VALLEY SANITATION DISTRICT
OF SANTA CLARA COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. *Budgets and Budgetary Accounting*

West Valley Sanitation District adopts an operating budget at the beginning of each year for the following fiscal year. The District General Manager is authorized to transfer any unencumbered amounts from one department to another within the same major account and to transfer any unencumbered appropriation from one line item account to another within the same major account. The major accounts are defined as salaries and employee benefits, maintenance and operation, capital outlay and reserves. Any additional appropriations require approval by the Board of Directors.

E. *Cash Equivalents*

For purposes of the statement of cash flows, cash equivalents include time deposits, certificates of deposit, and all highly liquid debt instruments with original maturities of three months or less. Cash equivalents also include "Cash in County Treasury," which is categorized as an investment.

F. *Supplies and Tools*

Supplies and small tools are stated at lower of cost (first-in, first-out) or market.

G. *Compensated Absences*

The District records the expense of employees' vacation and sick leave benefits in the period in which they accumulate and become vested.

H. *Use of Estimates*

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

I. *Revenues – Connection Fees*

Connection fees represent a one-time contribution of resources to the District imposed on contractors and developers for the purpose of financing growth-related construction and improvements. Connection fees are recognized as other non-operating revenues in the statement of revenues, expenses and changes in net assets. Any cumulative fees collected in excess of amounts expended are shown as reserved retained earnings.

WEST VALLEY SANITATION DISTRICT
OF SANTA CLARA COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 2 – CASH AND INVESTMENTS

A. Policies

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the District's cash on deposit or first trust deed mortgage notes with a value of 150% of the District's cash on deposit as collateral for these deposits. Under California Law this collateral is held in a separate investment pool by another institution in the District's name and places the District ahead of general creditors of the institution. The District has waived collateral requirements for the portion of deposits covered by federal deposit insurance.

B. Investments

The District adopted Government Accounting Standards Board Statement 31, which requires that the District's investments be carried at fair value instead of cost. Under GASB 31, the District adjusts the carrying value of its investments to reflect their fair value monthly, and it includes the effects of these adjustments in income for that fiscal year.

Investments are carried at fair value, which is the same as fair market value. Cash and investments were as follows at June 30:

	Fair Value	
	2009	2008
Unrestricted:		
County Treasury	\$26,915,332	\$30,997,619
Cash on Hand at District	700	700
Cash Deposits with Banks	109,981	154,144
	<u>\$27,026,013</u>	<u>\$31,152,463</u>
Restricted:		
County Treasury - Restricted	\$1,285,063	\$1,442,428
Held by City of San Jose for debt service reserve	572,288	
	<u>\$1,857,351</u>	<u>\$1,442,428</u>

The District has authorized staff to deposit cash with the Santa Clara County Treasurer in a series of pooled accounts with cash from various other governmental entities within the County, for investment purposes. The pooled cash is invested principally in bankers' acceptances, negotiable certificates of deposit and various U.S. Government Agency and commercial notes. Interest earned from such time deposits and investments is allocated quarterly to the District based on its average daily cash balances. The fair values of the accounts at June 30, 2009 and 2008 were provided by the County Treasurer.

The County's investment policies are governed by State statutes. In addition, the County has an investment committee, which prescribes written investment policies regarding the types of investments that may be made. The policies limit amounts that may be invested in any one financial institution or amounts, which may be invested in long-term instruments.

WEST VALLEY SANITATION DISTRICT
OF SANTA CLARA COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 2 – CASH AND INVESTMENTS (Continued)

During the years ended June 30, 2009 and 2008, the investment committee's permissible investments included obligations of the U.S. Government Agencies bills, notes or bonds and certain time deposits, certificates of deposit, bankers' acceptances, commercial paper, repurchase and reverse repurchase agreements, money market funds, medium term corporate notes or deposit notes and municipal obligations.

NOTE 3 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost or, if contributed, at estimated value at time of acquisition. Depreciation is recognized on buildings, furniture, fixtures, equipment and subsurface lines by the straight-line method over their estimated useful lives. Capacity rights in the San Jose-Santa Clara Water Pollution Control Plan are being amortized over a 30-year period.

District policy is to capitalize all assets, which cost \$500 or more, and to charge to current operations all additions under that cost limit. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend lives are also expensed in the current period.

Changes in property, plant and equipment accounts are summarized below:

	Balance at June 30, 2008	Additions	Deductions	Balance at June 30, 2009
Capital assets not being depreciated:				
Land and easements	\$276,535			\$276,535
Total capital assets not being depreciated	<u>276,535</u>			<u>276,535</u>
Capital assets being depreciated:				
Subsurface lines	82,199,052	\$2,193,947	(\$1,038,750)	83,354,249
Office building and furniture	1,261,543	40,942	(175,865)	1,126,620
Maintenance building and equipment	3,382,402	432,857	(202,239)	3,613,020
Total capital assets being depreciated:	<u>86,842,997</u>	<u>2,667,746</u>	<u>(1,416,854)</u>	<u>88,093,889</u>
Less accumulated depreciation for:				
Subsurface lines	33,102,617	1,864,061	(1,038,750)	33,927,928
Office building, furniture	587,860	53,291	(110,544)	530,607
Maintenance building and equipment	1,623,441	201,065	(260,697)	1,563,809
Total accumulated depreciation	<u>35,313,918</u>	<u>2,118,417</u>	<u>(1,409,991)</u>	<u>36,022,344</u>
Net capital assets being depreciated	<u>\$1,529,079</u>	<u>\$549,329</u>	<u>(6,863)</u>	<u>\$2,071,545</u>
Total capital assets, net	<u>\$51,805,614</u>	<u>\$549,329</u>	<u>(\$6,863)</u>	<u>\$52,348,080</u>

**WEST VALLEY SANITATION DISTRICT
OF SANTA CLARA COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 4 – CAPACITY RIGHTS IN TREATMENT PLANT

The District has a contract with the Cities of San Jose and Santa Clara which gives the District rights to a percentage of the capacity of their sewage treatment facilities. The contract terminates in 2031 and requires the District to pay its share of debt service on the treatment plant. The District also pays costs based on 1) allocated flow capacity rights of the total plant capacity and 2) operation and maintenance share based upon actual sewage flow and strengths. The maintenance and operation costs, net of prior year credits, were \$5,619,059 and \$5,552,051 for the years ended June 30, 2009 and 2008, respectively.

The District is also required to pay a portion of plant improvements based on the District's capacity rights percentage. Plant improvement expenditures for the years ending June 30, 2009 and 2008 were \$2,585,742 and \$2,047,603 respectively.

Changes in capacity rights accounts are summarized as follows:

	Balance at June 30, 2008	Additions	Balance at June 30, 2009
Capacity rights in treatment plant:			
Treatment plant	\$43,189,672	\$2,585,742	\$45,775,414
Land	2,001,095		2,001,095
Total capacity rights in treatment plant	45,190,767	2,585,742	47,776,509
Less accumulated depreciation	(24,320,682)	(1,482,752)	(25,803,434)
Net capacity rights in treatment plant	\$20,870,085	\$1,102,990	\$21,973,075

NOTE 5 – LONG-TERM DEBT

A. Current Year Transactions and Balances

	Original Issue Amount	Balance June 30, 2008	Retirements	Balance June 30, 2009	Amount due within one year
2000 Series A CSCDA Water and Wastewater Revenue Bonds 3.700%-5.375%, due 4/1/2031	\$9,750,000	\$6,410,000	\$155,000	\$6,255,000	\$160,000
2005 Series A Sewer Revenue Refunding Bonds, variable rate, due 11/15/2016	5,722,879	4,846,226	474,611	4,371,615	491,562
2005 Series B Revenue Refunding Bonds, variable rate, due 11/15/2016	2,874,152	2,874,152	2,874,152		
State Revolving Fund Loan 1.803%, due 6/30/2019	6,214,891	3,544,143	312,518	3,231,625	318,216
Total Long-Term Debt		17,074,521	\$5,816,281	13,858,240	\$969,778
Less:					
Amount due within one year		(942,129)		(942,129)	
Unamortized bond discounts		(208,992)		(194,165)	
Long-Term Debt, due in more than one year, net		\$16,523,400		\$12,694,297	

**WEST VALLEY SANITATION DISTRICT
OF SANTA CLARA COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 5 – LONG-TERM DEBT (Continued)

B. 2000 Water and Wastewater Revenue Bonds

In December 2000, the District entered into a financing agreement with other entities, whereby \$9,750,000 in 2000 Series A California Statewide Communities Development Authority (CSCDA) Water and Wastewater Revenue Bonds were issued. The proceeds were used to finance various joint trunk sewer projects. The District's share of the 2000 bonds is 75.13%. The agreement calls for semi-annual payments in April and October through Union Bank of California. The Series 2000 bonds are secured by a lien on revenues derived by CSCDA from the agreement by and among CSCDA, the City of Cloverdale and West Valley Sanitation District.

C. 2005 Clean Water Financing Authority Refunding Bonds, Series A and B

In September 2005, the District entered into a financing agreement with the Cities of San Jose and Santa Clara and the other tributary agencies of the San Jose/Santa Clara Water Pollution Control Plant whereby \$81,150,000 of revenue bonds were issued. The Series A bonds have a fixed interest rate. The Series B bonds have a variable rate. The proceeds from the bonds were used to fully refund the 1995 Series A and B bond issue. The District's share of the bonds is 10.594%. The agreement calls for semi-annual payments in May and November to the City of San Jose. The bonds are secured by a lien on the revenues derived by the Clean Water Financing Authority (Authority) from the improvement agreement by and among the Authority and the Cities of San Jose and Santa Clara. The District's share of the Series B bond issue was paid off as June 30, 2009.

D. State Revolving Fund Loan

In fiscal year ended June 30, 1999, the District entered into a financing agreement with the Cities of San Jose and Santa Clara and the other tributary agencies of the San Jose/Santa Clara Water Pollution Control Plant whereby \$73,566,018 in State Revolving Fund Loan program funds were received. These funds have a fixed interest rate of 1.803%. The proceeds were used to additionally finance the South Bay Water Recycling Project. The District's share of the SRF loan is 8.448%. The agreement calls for semi-annual payments in April and October to the City of San Jose. The loan is secured by a lien on the revenues derived by the Clean Water Financing Authority (Authority) from the improvement agreement by and among the Authority and the Cities of San Jose and Santa Clara.

E. Debt Service Requirements

For The Year Ending June 30	Principal	Interest	Total
2010	\$969,778	\$542,748	\$1,512,526
2011	1,001,471	513,367	1,514,838
2012	1,028,799	480,886	1,509,685
2013	1,063,885	446,519	1,510,404
2014	1,095,668	410,942	1,506,610
2015-2019	4,453,639	1,473,843	5,927,482
2020-2024	1,450,000	953,658	2,403,658
2025-2029	1,890,000	507,668	2,397,668
2029-2031	905,000	49,316	954,316
Total payments due	\$13,858,240	\$5,378,947	\$19,237,187

WEST VALLEY SANITATION DISTRICT
OF SANTA CLARA COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 6 – COMMITMENTS AND CONTINGENT LIABILITIES

The District is party to various legal proceedings which normally occur in governmental operations. These legal proceedings are not likely to have a material adverse impact on the affected funds of the District.

NOTE 7 – CONTRIBUTED FACILITIES

Generally the District receives contributions to capital from three basic sources: reimbursements for the cost of lines providing new sewer service under the Septic System Abandonment Program (SSAP); reimbursements for the cost of connecting to main sewer lines; and lines installed and paid for by developers who are required to contribute their sewers to the District as a condition of project approval.

In 1986 the District initiated the Septic System Abandonment Program (SSAP) to bring sewer mains within reach of residences which are still served by private septic systems. The District identifies urban residential area where a majority of the homeowners would be interested in abandoning their private septic systems and connecting to the public sewers. Homeowners participate on a voluntary basis after the District informs them of their pro rata share of project costs.

SSAP contributions to capital consist of reimbursement for project costs, as identified at project completion from residence connecting to the new subsurface lines. These projects costs include design, construction, overhead and contingencies.

In addition to SSAP projects and other recorded subsurface lines, the District maintains an unrecorded inventory of parcels, which are not yet connected to the District's main sewers. This inventory of collectible frontage will be billed to future users at the time they connect their property to the District's sewer. The frontage fees charged to these properties will be based upon the estimated construction costs at the time the sewer connection permit is issued.

This collectible frontage is an unrecorded asset because the District cannot estimate the amount or timing of the expected receipts.

The value of lines contributed by developers is recorded at the cost of building the line as established by estimates prepared by the District's engineering department prior to project approval.

NOTE 8 – NET ASSETS

Net Assets is the excess of all the District's assets over all its liabilities, regardless of fund. The following captions apply only to Net Assets, which is determined only at the Government-wide level, and are described below:

Invested in Capital Assets and Capacity Rights, net of related debt describes the portion of Net Assets which is represented by the current net book value of the District's capital assets, less the outstanding balance of any debt issued to finance these assets.

Unrestricted describes the portion of Net Assets which is not restricted to use.

WEST VALLEY SANITATION DISTRICT
OF SANTA CLARA COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 9 – DEFINED BENEFIT PENSION PLAN

Substantially all District employees are eligible to participate in pension plans offered by California Public Employees Retirement System (CALPERS), an agent multiple employer defined benefit pension plan which acts as a common investment and administrative agent for its participating member employers. CALPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. The District's employees participate in the Miscellaneous Plan. Benefit provisions under the Plan are established by State statute and District resolution. Benefits are based on years of credited service, equal to one year of full time employment. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30 by CALPERS; the District must contribute these amounts. The District's labor contracts require it to pay employee contributions as well as its own. The Plans' provisions and benefits in effect at June 30, 2009, are summarized as follows:

	Miscellaneous
Benefit vesting schedule	5 years service
Benefit payments	monthly for life
Retirement age	50
Monthly benefits, as a % of annual salary	2.0 - 2.5%
Required employee contribution rates	8%
Required employer contribution rates	18.785%
Annual pension cost, all paid	\$515,312

CALPERS determines contribution requirements using a modification of the Entry Age Normal Method. Under this method, the District's total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level percentage of the related total payroll cost. Normal benefit cost under this method is the level amount the District must pay annually to fund an employee's projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities. The District does not have a net pension obligation since it pays these actuarially required contributions monthly. Annual Pension Costs, representing the payment of all contributions required by CALPERS, for the last three years were as follows:

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net
			Pension Obligation
June 30, 2007	\$452,032	100%	\$0
June 30, 2008	431,895	100%	\$0
June 30, 2009	515,312	100%	\$0

**WEST VALLEY SANITATION DISTRICT
OF SANTA CLARA COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 9 – DEFINED BENEFIT PENSION PLAN (Continued)

CALPERS uses the market related value method of valuing the Plan's assets. An investment rate of return of 7.75% is assumed, including inflation at 3.0%. Annual salary increases are assumed to vary by duration of service. Changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methods are amortized as a level percentage of payroll on a closed basis over twenty years. Investment gains and losses are accumulated as they are realized and amortized over a rolling thirty year period.

As required by State law, effective July 1, 2005, the District's Plan was terminated, and the employees in the plan were required by CALPERS to join a new State-wide pool. One of the conditions of entry to these pools was that the District true-up any unfunded liability in the former Plan, either by paying cash or by increasing its future contribution rates through a Side Fund offered by CALPERS. The District satisfied its Plan's unfunded liability of \$1,806,154 by agreeing to contribute that amount to the Side Fund through an addition to its normal contribution rates over the next 11 years.

The schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. CALPERS' latest actuarial value (which differs from market value) and funding progress for the State-wide pools are shown below:

Valuation Date	Entry Age Accrued Liability	Value of Assets	Actuarial (in thousands)		Unfunded (Overfunded) Liability as % of Payroll
			Unfunded (Overfunded) Liability	Funded Ratio	
2005	\$579,276,103	\$500,388,523	\$78,887,580	86.4%	\$129,379,492 61.0%
2006	912,988,585	787,758,909	125,229,676	86.3%	200,320,145 62.5%
2007	1,315,654,261	1,149,247,298	166,207,063	87.4%	289,090,187 57.5%

Audited annual financial statements and ten-year trend information are available from CALPERS at P.O. Box 942709, Sacramento, CA 94229-2709.

NOTE 10 – POST RETIREMENT BENEFITS

The District provides post-retirement benefits to eligible employees in the form of reimbursement for post-retirement health, insurance premiums. Retired employees have a choice of remaining on the District's group health insurance plan or purchasing a plan of their choice. Reimbursement is made quarterly upon receipt of proof of payment. The District's contribution is capped at the amount of the Kaiser premium which was set at \$446 per month per individual for fiscal year 2008-2009, \$431 for fiscal year 2006-2007, and \$366 for fiscal year 2005-2006.

The obligation of the District to provide these benefits is determined annually by the Board of Directors.

During fiscal year 2009, the District implemented the provisions of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes uniform financial reporting standards for employers providing postemployment benefits other than pensions (OPEB). The provisions of this statement are applied prospectively and do not affect prior year's financial statements. Required disclosures are presented below.

**WEST VALLEY SANITATION DISTRICT
OF SANTA CLARA COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 10 – POST RETIREMENT BENEFITS (Continued)

In anticipation of implementing the provisions of GASB Statement No. 45, as of June 30, 2009, the District joined the California Employers' Retiree Benefit Trust (CERBT), an agent multiple-employer plan administered by CALPERS, consisting of an aggregation of single-employer plans.

In order to qualify for postemployment medical benefits, an employee must retire from the District with at least 15 years of District service.

Funding Policy and Actuarial Assumptions

The District's policy, is to fund minimally the Annual Required Contribution (ARC) of these benefits by accumulating assets with CERBT discussed above pursuant to the District's annual budget approved by Board. The annual required contribution (ARC) was determined as part of a June 30, 2008 actuarial valuation using the entry age normal actuarial cost method. This is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future as well as those already accrued. The actuarial assumptions included (a) 7.75% investment rate of return, (b) 3.25% projected annual salary increase, and (c) health care cost trend rates of 10.4% for medical benefits. The actuarial methods and assumptions used include techniques that smooth the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Actuarial calculations reflect a long-term perspective and actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to revision at least tri-ennially as results are compared to past expectations and new estimates are made about the future. The District's OPEB unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll using a 30 year amortization period on a closed basis. The study indicates that as of June 30, 2008, the actuarial accrued liability was estimated to be \$1,885,000.

Funding Progress and Funded Status

Generally accepted accounting principles permit contributions to be treated as OPEB assets and deducted from the Actuarial Accrued Liability when such contributions are placed in an irrevocable trust or equivalent arrangement. During the fiscal year ended June 30, 2009, the District contributed the ARC amounting to \$158,000, plus an additional amount of \$147,500, to the Plan. As a result, the District has calculated and recorded the Net OPEB Asset/Liability, representing the difference between the ARC, amortization and contributions, as presented below:

Annual required contribution	\$158,000
Adjustment to annual required contribution	0
Annual OPEB cost	158,000
Contributions made	<u>(305,500)</u>
(Decrease) increase in net OPEB obligations	(147,500)
Net OPEB obligation (asset) June 30, 2008	0
Net OPEB obligation (asset) June 30, 2009	<u><u>(\$147,500)</u></u>

**WEST VALLEY SANITATION DISTRICT
OF SANTA CLARA COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 10 – POST RETIREMENT BENEFITS (Continued)

The Net OPEB asset of \$147,500 is included in the Prepaid Expenses balance on the Statement of Net Assets.

The actuarial accrued liability (AAL) representing the present value of future benefits, included in the actuarial study dated June 30, 2008, amounted to \$2,196,000. The AAL is partially funded since assets have been transferred into CERBT. The District's current year contribution, along with investment income net of current year premiums resulted in assets with CERBT of \$305,500 as of June 30, 2009, which partially reduced the unfunded actuarial accrued liability.

The Plan's annual required contributions and actual contributions for fiscal year ended June 30, 2009 is set forth below:

Fiscal Year	Annual OPEB Cost (AOC)	Actual Contribution	Percentage of AOC Contributed	Net OPEB Obligation (Asset)
June 30, 2009	\$158,000	\$305,500	193%	(\$147,500)

The Schedule of Funding Progress presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Trend data from the June 30, 2008 actuarial study is presented below:

Actuarial Valuation Date	Actuarial Value of Assets (A)	Entry Age Actuarial Liability (B)	Unfunded (Overfunded) Actuarial Liability (A-B)	Funded Ratio (A/B)	Covered Payroll (C)	Unfunded (Overfunded) Actuarial Liability as Percentage of Covered Payroll [(A-B)/C]
6/30/2008	\$0	\$1,885,000	\$1,885,000	0.00%	\$1,801,000	104.66%

NOTE 11 – 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 joined together with other entities to form the California Sanitation Risk Management Authority (CSRMA), a public entity risk pool currently operating a common risk management and insurance program for 56 member entities. The purpose of CSRMA is to spread the adverse effects of losses among the member entities and to purchase excess insurance as a group, thereby reducing its cost. The District pays annual premiums to CSRMA for its general liability, property damage, workers compensation insurance and automobile coverage.

CSRMA is governed by a Board composed of one representative from each member agency. The Board controls the operations of CSRMA including selection of management and approval of operating budgets, independent of any influence by member entities.

**WEST VALLEY SANITATION DISTRICT
OF SANTA CLARA COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 11 – RISK MANAGEMENT (Continued)

CSRMA is not a component unit of the District, and the District's share of CSRMA's assets, liabilities, and equity has not been calculated.

Audited condensed financial information for CSRMA is presented below for the year ended June 30, 2008, the most recent information available:

Total assets	\$26,583,469
Total liabilities	15,298,475
Equity	\$11,284,994
Total revenues	\$7,694,333
Total expenses	10,806,732
Change in equity	(\$3,112,399)

The following is a summary of the insurance policies in force carried by the District as of June 30, 2009:

Type of Coverage	Limits	Deductibles
General Liability	\$15,750,000	\$25,000
Auto Physical Damage	7,000,000	1,000
Special Form Property	2,620,727	5,000
Employee Dishonesty Bond	100,000	1,000
Worker's Compensation	750,000	None
Excess Worker's Compensation Liability	Statutory	750,000
Mobile Equipment	805,064	2,000
Public Official Bond	100,000	None

In addition to the primary insurance types provided for through CSRMA listed above, the District also maintains employee fidelity bonds, public employee dishonesty and public official bonds. Settled claims for CSRMA or employee fidelity bonds have not exceeded coverage in any of the past three fiscal years. Audited financial statements of CSRMA may be obtained at 100 Pine Street, 11th Floor, San Francisco, CA 94111-5101.

No material claims have been filed against the District to date.

WEST VALLEY SANITATION DISTRICT
SCHEDULES OF OPERATING EXPENSES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2009

	Budget	Actual	Under (Over)
GENERAL AND ADMINISTRATIVE			
Salaries	\$918,455	\$964,165	(\$45,710)
Employee benefits	575,430	521,067	54,363
Directors' fees	28,460	20,548	7,912
Insurance	58,000	114,544	(56,544)
Memberships	23,750	23,183	567
Office expense	213,800	129,544	84,256
Contractual services	179,000	160,657	18,343
Professional services	261,500	250,579	10,921
Printing and publications	6,500	9,589	(3,089)
Rents and leases	16,000	12,782	3,218
Repairs and maintenance	500	102	398
Professional development	34,380	35,018	(638)
Utilities	43,400	49,817	(6,417)
Miscellaneous	4,325	2,933	1,392
Total General and Administrative	2,363,500	2,294,528	68,972
SERVICE EXTENSION			
Salaries	411,785	432,279	(20,494)
Employee benefits	220,561	210,114	10,447
Insurance	22,000	33,214	(11,214)
Memberships	6,100	6,553	(453)
Office expense	174,700	80,761	93,939
Contractual services	78,500	68,766	9,734
Professional services	50,000	30,008	19,992
Printing and publications	2,800	1,680	1,120
Professional development	5,900	11,186	(5,286)
Miscellaneous	1,075	624	451
Total Service Extension	973,421	875,185	98,236
			(Continued)

SUPPLEMENTAL INFORMATION

WEST VALLEY SANITATION DISTRICT
SCHEDULES OF OPERATING EXPENSES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2009

	Budget	Actual	Under (Over)
SEWER MAINTENANCE			
Salaries	931,785	978,158	(46,373)
Employee benefits	432,223	234,510	197,713
Gas, oil and fuel	65,300	46,481	18,819
Insurance	55,000	83,036	(28,036)
Memberships	1,300	1,452	(152)
Office expense	80,100	124,489	(44,389)
Contractual services	60,500	43,853	16,647
Printing and publications	2,100	0	2,100
Rents and leases	1,500	99	1,401
Repairs and maintenance	178,000	165,673	12,327
Professional development	32,450	50,787	(18,337)
Utilities	21,000	24,999	(3,999)
Miscellaneous	21,750	36,293	(14,543)
Total Sewer Maintenance	1,883,008	1,789,830	93,178
SEWAGE DISPOSAL			
Salaries	250,669	263,144	(12,475)
Employee benefits	88,308	74,547	13,761
Treatment plant operations	6,207,308	5,619,059	588,249
Clean water program expenses	302,000	290,184	11,816
Total Sewage Disposal	6,848,285	6,246,934	601,351
TOTAL OPERATING EXPENSES	\$12,068,214	\$11,206,477	\$861,737

WEST VALLEY SANITATION DISTRICT
SCHEDULES OF OPERATING EXPENSES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2008

	Budget	Actual	Under (Over)
GENERAL AND ADMINISTRATIVE			
Salaries	\$875,336	\$818,104	\$57,232
Employee benefits	496,589	360,265	136,324
Directors' fees	28,460	20,964	7,496
Insurance	61,000	76,814	(15,814)
Memberships	23,550	21,254	2,296
Office expense	74,500	78,797	(4,297)
Contractual services	217,650	176,946	40,704
Professional services	343,500	275,419	68,081
Printing and publications	6,500	14,540	(8,040)
Rents and leases	14,000	12,553	1,447
Repairs and maintenance	8,000	814	7,186
Professional development	34,550	27,582	6,968
Utilities	54,600	50,152	4,448
Miscellaneous	4,125	2,066	2,059
Total General and Administrative	2,242,360	1,936,270	306,090
SERVICE EXTENSION			
Salaries	363,484	363,484	0
Employee benefits	144,206	144,206	0
Insurance	24,000	16,622	7,378
Memberships	6,550	5,857	693
Office expense	4,600	9,174	(4,574)
Contractual services	87,400	337,832	(250,432)
Professional services	188,500	85,436	103,064
Printing and publications	2,500	5,697	(3,197)
Professional development	7,850	5,498	2,352
Miscellaneous	1,075	289	786
Total Service Extension	830,165	974,095	(143,930)

(Continued)

WEST VALLEY SANITATION DISTRICT
 SCHEDULES OF OPERATING EXPENSES - BUDGET AND ACTUAL
 FOR THE YEAR ENDED JUNE 30, 2008

	Budget	Actual	Under (Over)
SEWER MAINTENANCE			
Salaries	910,791	851,241	59,550
Employee benefits	503,532	371,435	132,097
Gas, oil and fuel	60,500	57,581	2,919
Insurance	60,000	41,556	18,444
Memberships	1,500	1,210	290
Office expense	32,400	21,621	10,779
Contractual services	46,200	31,848	14,352
Printing and publications	2,800	4	2,796
Rents and leases	3,900	1,788	2,112
Repairs and maintenance	344,300	103,526	240,774
Professional development	38,000	28,212	9,788
Utilities	22,000	17,733	4,267
Miscellaneous	21,500	20,540	960
Total Sewer Maintenance	2,047,423	1,548,295	499,128
SEWAGE DISPOSAL			
Salaries	255,743	239,022	16,721
Employee benefits	93,340	69,340	24,000
Treatment plant operations	5,720,000	5,552,051	167,949
Clean water program expenses	289,000	256,028	32,972
Total Sewage Disposal	6,358,083	6,116,441	241,642
TOTAL OPERATING EXPENSES	\$11,478,031	\$10,575,101	\$902,930

APPENDIX B

DEFINITIONS AND SUMMARY OF LEGAL DOCUMENTS

The following is a brief summary of certain of the definitions and provisions of the Indenture. This summary is not intended to be comprehensive or definitive, and reference is made to the Indenture for the complete terms thereof.

DEFINITIONS

Annual Debt Service

"Annual Debt Service" means, for any Fiscal Year, the sum of (1) the interest accruing on all Parity Debt during such Fiscal Year, assuming that all Parity Debt is retired as scheduled, plus (2) the principal amount (including principal due as sinking fund payments) allocable to all Parity Debt in such Fiscal Year, calculated as if such principal amounts were deemed to accrue daily during such Fiscal Year in equal amounts from, in each case, each payment date for principal or the date of delivery of such Parity Debt (provided that principal shall not be deemed to accrue for greater than a 365-day period prior to any payment date), as the case may be, to the next succeeding payment date for principal, provided, that the following adjustments shall be made to the foregoing amounts in the calculation of Annual Debt Service:

A. with respect to any such Parity Debt bearing or comprising interest at other than a fixed interest rate, the rate of interest used to calculate Annual Debt Service shall be (i) with respect to such Parity Debt then outstanding, one hundred ten per cent (110%) of the greater of (1) the daily average interest rate on such Parity Debt during the twelve (12) calendar months next preceding the date of such calculation (or the portion of the then current Fiscal Year that such Parity Debt has borne interest) or (2) the most recent effective interest rate on such Parity Debt prior to the date of such calculation or (ii) with respect to such Parity Debt then proposed to be issued, 80% of the interest rate on actively traded 10-year United States Treasury obligations;

B. with respect to any such Parity Debt having twenty-five per cent (25%) or more of the aggregate principal amount thereof due in any one Fiscal Year, Annual Debt Service shall be calculated for the Fiscal Year of determination as if the interest on and principal of such Parity Debt were being paid from the date of incurrence thereof in substantially equal annual amounts over a period of twenty (20) years from the date of such Parity Debt provided, however that the full amount of such Parity Debt shall be included in Annual Debt Service if the date of calculation is within 24 months of the actual maturity of the payment;

C. with respect to any such Parity Debt or portions thereof bearing no interest but which are sold at a discount and which discount accretes with respect to such Parity Debt or portions thereof, such accreted discount shall be treated as due when scheduled to be paid;

D. Annual Debt Service shall not include interest on Parity Debt which is to be paid from amounts constituting capitalized interest;

E. if an interest rate swap agreement is in effect with respect to any Parity Debt, the net payments scheduled to be paid under such swap agreement and the interest payable on such Parity Debt, shall be considered to be the Annual Debt Service, and for this purpose, the variable amount under any such interest rate swap agreement shall be determined in accordance with the procedure set forth in subparagraph (A) of this definition; and

F. Repayment Obligations proposed to be entered into as Parity Debt shall be deemed to be payable at the scheduled amount due under such Repayment Obligation as calculated under this definition.

Authorized Investments

"Authorized Investments" means any of the following obligations which at the time of investment are legal investments of funds of the District under the laws of the State of California for the money proposed to be invested in the Master Indenture:

(1) (a) Direct obligations (other than an obligation subject to variation in principal repayment) of the United States of America ("United States Treasury Obligations"), (b) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by the United States of America, (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, or (d) evidences of ownership of proportionate interests in future interest and principal payments on obligations described above held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying government obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated. These include, but are not necessarily limited to:

(i) U.S. Treasury obligations

All direct or fully guaranteed obligations

(ii) Farmers Home Administration

Certificates of beneficial ownership

(iii) General Services Administration

Participation certificates

(iv) U.S. Maritime Administration

Guaranteed participation certificates

Guaranteed pool certificates

(v) Government National Mortgage Association (GNMA)

GNMA guaranteed mortgage backed securities

GNMA guaranteed participation certificates

(vi) U.S. Department of Housing & Urban Development

Local authority bonds

(vii) Washington Metropolitan Area Transit Authority

Guaranteed transit bonds

(2) Federal Housing Administration debentures.

(3) The listed obligations of government sponsored agencies which are not backed by the full faith and credit of the United States of America:

(i) Federal Home Loan Mortgage Corporation (FHLMC)

Participation certificates (excluding stripped mortgage securities which are purchased at prices exceeding their principal amounts)

Senior debt obligations

(ii) Farm Credit Banks (formerly: Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives)

Consolidated system wide bonds and notes

(iii) Federal Home Loan Banks (FHL Banks)

Consolidated debt obligations

(iv) Federal National Mortgage Association (FNMA)

Senior debt obligations

Mortgage backed securities (excluding stripped mortgage securities which are purchased at prices exceeding their principal amounts)

(v) Student Loan Marketing Association (SLMA)

Senior debt obligations (excluding securities that do not have a fixed par value and/or the terms of which do not promise a

fixed dollar amount at maturity or call date)

(vi) Financing Corporation (FICO)

Debt obligations

(vii) Resolution Funding Corporation (REFCORP)

Debt obligations

(4) Unsecured certificates of deposit, deposit accounts, time deposits, and bankers' acceptances (having maturities of not more than 30 days) of any bank the short term obligations of which are rated "A 1" or better by Standard & Poor's.

(5) Deposits the aggregate amount of which are fully insured by the Federal Deposit Insurance Corporation (FDIC), in banks which have capital and surplus of at least \$5 million.

(6) Money market funds rated "AAm" or "AAm G" by Standard & Poor's, or better, including funds which the Trustee or an affiliate manages, sponsors and advises.

(7) Repurchase agreements with institutions rated at least "AA" by Standard & Poor's and Moody's at the time of investment.

(8) State Obligations, which means:

(i) Direct general obligations of any state of the United States or any subdivision or agency thereof to which is pledged the full faith and credit of a state the unsecured general obligation debt of which is rated "A3" by Moody's and "A" by Standard & Poor's, or better, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose unsecured general obligation debt is so rated.

(ii) Direct, general short term obligations of any state agency or subdivision described in (a) above and rated "A 1+" by Standard & Poor's and "Prime 1" by Moody's.

(iii) Special Revenue Bonds (as defined in the United States Bankruptcy Code) of any state, state agency or subdivision described in (i) above and rated

"AA" or better by Standard & Poor's and "Aa" or better by Moody's.

(9) Investment Agreements with institutions rated at least "AA" by Standard & Poor's and Moody's at the time of investment.

(10) Pre funded municipal obligations rated "AAA" by Standard & Poor's and "Aaa" by Moody's meeting the following requirements:

(i) the municipal obligations are (i) not subject to redemption prior to maturity or (ii) the trustee for the municipal obligations has been given irrevocable instructions concerning their call and redemption and the issuer of the municipal obligations has covenanted not to redeem such municipal obligations other than as set forth in such instructions;

(ii) the municipal obligations are secured by cash or United States Treasury obligations which may be applied only to payment of the principal of, interest and premium on such municipal obligations;

(iii) the principal of and interest on the United States Treasury Obligations (plus any cash in the escrow) has been verified by the report of independent certified public accountants to be sufficient to pay in full all principal of, interest, and premium, if any, due and to become due on the municipal obligations ("Verification");

(iv) the cash or United States Treasury Obligations serving as security for the municipal obligations are held by an escrow agent or trustee in trust for owners of the municipal obligations;

(v) no substitution of a United States Treasury Obligation shall be permitted except with another United States Treasury obligation and upon delivery of a new Verification; and

(vi) the cash or the United States Treasury Obligations are not available to satisfy any other claims, including those by or against the trustee or escrow agent.

(11) Local California agency investment pools, so long as such pool is rated in one of the two highest rating categories by S&P and Moody's.

(12) The Local Agency Investment Fund administered by the State of California

Bonds

"Bonds" means all Series of the Bonds authorized, executed and delivered under all Supplemental Indentures.

Code

"Code" means the Internal Revenue Code of 1986, as amended, and the regulations of the United States Department of the Treasury issued thereunder, and in this regard reference to any particular section of the Code shall include reference to all successors to such section of the Code.

Continuing Disclosure Certificate

"Continuing Disclosure Certificate" means that certain Continuing Disclosure Certificate or Certificates executed by the District with respect to a Series of the Bonds.

Interest Account

"Interest Account" means the account by that name established pursuant to the Indenture that is held by the Trustee.

Interest Payment Date

"Interest Payment Date" means any April 1 or October 1, on which interest on any Series of the Bonds or Parity Debt is scheduled to be paid (Parity Debt may have different interest payments dates to the extent required by law or a governmental loan program or to the extent variable rate interest is paid monthly or quarterly).

Law

"Law" means (1) Chapter 5 of Part 3 of Division 5 (commencing with Section 4950) of the California Health and Safety Code (commonly referred to as the Sewer Revenue Bond Act of 1933), and all laws amendatory thereof and supplementary thereto; or (2) Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 (commencing with Section 53570) of the California Government Code (commonly referred to as the Refunding Bond Law); or (3) Chapter 6 of Part 1 of Division 2 (commencing with Section 54300) of the California Government Code (commonly referred to as the Revenue Bond Law of 1941).

Maximum Annual Debt Service

"Maximum Annual Debt Service" means, as of any date of calculation, the largest Annual Debt Service during the period from the date of such calculation through the final maturity date of all Parity Debt.

Operation and Maintenance Costs

"Operation and Maintenance Costs" means all management, operation and maintenance costs of the System, determined in accordance with Generally Accepted Accounting Principles, including all incidental costs, fees and expenses properly chargeable thereto and all amounts properly chargeable thereto by the general fund of the District, but excluding in all cases (i) payment of Parity Debt and Subordinate Obligations, (ii) costs of capital additions, replacements, betterments, extensions or improvements which under are chargeable to a capital account, and (iii) depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles or other bookkeeping entries of a similar nature.

Outstanding

"Outstanding," when used as of any particular time with reference to Bonds, means (subject to the relevant provisions of the Indenture) all Bonds issued and delivered under the Master Indenture except--

- (1) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation;
- (2) Bonds paid or deemed to have been paid within the meaning of the Indenture; and

(3) Bonds in lieu of or in substitution for which other Bonds shall have been executed, issued and delivered by the District pursuant to the Indenture.

Parity Debt

"Parity Debt" means the Bonds and any Parity Obligations.

Parity Obligations

"Parity Obligations" means that certain all obligations of the District, the payments under which are secured by a pledge of the System Net Revenues on a parity with payments of principal of and interest on the Bonds as provided in the Indenture, including but not limited to any Repayment Obligations secured by System Net Revenues on a parity with the Bonds.

Parity Obligation Payments

"Parity Obligation Payments" means the payments scheduled to be paid by the District under and pursuant to the Parity Obligations, which payments are secured by a pledge of System Net Revenues on a parity with the Bonds as provided in the Indenture.

Principal Account

"Principal Account" means the account by that name, established pursuant to the Indenture that is held by the Trustee.

Principal Payment Date

"Principal Payment Date" means any October 1 on which the principal of any Series of the Bonds or Parity Debt is scheduled to be paid (Parity Debt may have different principal payments dates to the extent required by law or a governmental loan program).

Rate Stabilization Fund

"Rate Stabilization Fund" means the fund by that name established pursuant to the Indenture.

Record Date

"Record Date" means the close of business on the 15th day of the month preceding any Interest Payment Date, whether or not such day is a Business Day.

Repayment Obligation

"Repayment Obligation" means the reimbursement obligation or any other payment obligation of the District under a written agreement between the District and a credit provider to reimburse the credit provider for amounts paid pursuant to a credit facility for the payment of the principal amount or purchase price of and/or interest on any Parity Debt.

Series of the Bonds

"Series of the Bonds" means when used with respect to the Bonds, means all the Bonds designated as being of the same series, authenticated and delivered in a simultaneous transaction, and identified in a Supplemental Indenture authorizing such Bonds as separate Series of the Bonds, and any Bonds thereafter authenticated and delivered upon a transfer or exchange or in lieu of or in substitution for such Bonds pursuant hereto.

Series 2010 Bonds

"Series 2010 Bonds" means the West Valley Sanitation District (Santa Clara County, California) Sewer Revenue Refunding Bonds, Series 2010 authorized, executed and delivered under the Supplemental Indenture.

System

"System" means the whole and each and every part of the wastewater system of the District, including the portion thereof existing on the date of the Indenture, and including all additions, betterments, extensions and improvements to such system or any part thereof hereafter acquired or constructed.

System Net Revenues

"System Net Revenues" means for any period System Revenues less Operation and Maintenance Costs for such period; provided that certain adjustments in the amount of System Net Revenue deemed collected during a Fiscal Year may be made in connection with amounts deposited in the Rate Stabilization Fund as provided in the Indenture.

System Revenue Fund

"System Revenue Fund" means the fund by that name created pursuant to the Indenture.

System Revenues

"System Revenues" means all gross income and revenue received or receivable by the District from the ownership or operation of the System, determined in accordance with Generally Accepted Accounting Principles, including all fees, rates, charges and all amounts paid under any contracts received by or owed to the District in connection with the operation of the System and all proceeds of insurance relating to the System and all other income and revenue howsoever derived by the District from the ownership or operation of the System or arising from the System.

Tax Certificate

"Tax Certificate" means a certificate, executed by the District and dated the date of the original issuance and delivery of a Series of the Bonds, with respect to the requirements of certain provisions of the Code, as such certificate may from time to time be modified or supplemented in accordance with the terms thereof.

SUMMARY OF INDENTURE

The following is a summary of certain of the provisions of the Indenture. This summary is not intended to be comprehensive or definitive, and reference is made to the actual document for the complete terms thereof.

Terms of Redemption.

Whenever less than all the Outstanding Bonds of any Series maturing on any one date are called for redemption at any one time, the Trustee shall select the Bonds to be redeemed (from the Outstanding Bonds maturing on such date not previously selected for redemption) by lot in any manner which the Trustee deems fair; provided, that if less than all Outstanding Term Bonds of any Series of the Bonds maturing on any one maturity date are called for redemption from proceeds other than Sinking Fund Account Installment Payments at any one time, the District shall specify in a Certificate of the District filed with the Trustee a reduction in Sinking Fund Account Installments required to be made with respect to such Term Bonds (in an amount equal to the amount of Outstanding Term Bonds of such Series of the Bonds to be redeemed) which, to the extent practicable, results in approximately equal Annual Debt Service on the Outstanding Bonds of such Series of the Bonds following such redemption. The District shall deposit with the Trustee money sufficient to redeem any Outstanding Bonds not later than (5) days prior to the redemption date of the Bonds to be redeemed.

In lieu of redemption of any Term Bonds of any Series of the Bonds, amounts on deposit in the Sinking Fund Account allocable to such Term Bond shall be used and withdrawn by the Trustee at any time, upon receipt of a Written Request of the District, for the purchase of such Term Bonds at public or private sale as and when at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as the District may, in its discretion determine, but not in excess of the principal amount thereof plus accrued interest to the purchase date; provided, that no Term Bonds shall be purchased under this "Terms of Redemption" section with a settlement date following that day which is seventy-five (75) days prior to the redemption date of such Term Bonds. The principal amount of any Term Bonds so purchased by the Trustee in any twelve (12) month period ending on that date which is seventy-five (75) days prior to any Sinking Fund Account Payment Date in any Bond Year shall be credited toward and shall reduce the principal amount of the Term Bonds required to be redeemed on such sinking Account Payment Date in such Bond Year.

Notice of redemption of any Bonds or any portions thereof shall be mailed by first class mail, postage prepaid, by the Trustee not less than thirty (30) nor more than sixty (60) days prior to the redemption date of such Bonds (i) to the respective Owners of the Bonds designated for redemption at their addresses appearing on the bond registration books kept by the Trustee, (ii) to the Information Services and (iii) to the Securities Depositories. Each notice of redemption shall state the date of such notice, the Bonds to be redeemed, the date of issue of such Bonds, the redemption date, the redemption price, whether funds are then on deposit sufficient to pay the redemption price, the place of redemption (including the name and appropriate address), the CUSIP number (if any) of the maturity or maturities, and, if less than all Bonds of any such maturity are to be redeemed, the distinctive numbers of the Bonds of such maturity to be redeemed and, in the case of Bonds to be redeemed in part only, the respective portions of the

principal amount thereof to be redeemed. Each such notice shall also state that on such redemption date there will become due and payable on each of such Bonds the redemption price thereof or of the specified portion of the principal amount thereof in the case of a Bond to be redeemed in part only, together with interest accrued thereon to the redemption date, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Bonds be then surrendered at the Corporate Trust Office of the Trustee specified in the redemption notice as the place of redemption; provided, that failure by the Trustee to give notice pursuant to the Master Indenture to any one or more of the Information Services or Securities Depositories, or the insufficiency of any such notice or the failure of any Owner to receive any redemption notice mailed to such Owner or any immaterial defect in the notice so mailed shall not affect the sufficiency of the proceedings for the redemption of any Bonds.

Upon surrender of any Bond redeemed in part only, the District shall execute and the Trustee shall (upon receipt of a Written Request of the District) authenticate and deliver to the Owner thereof, at the expense of the District, a new Bond or Bonds of authorized denominations equal in aggregate principal amount to the unredeemed portion of the Bond surrendered and of the same maturity.

From and after the date fixed for redemption of any Bonds or any portions thereof, if notice of such redemption shall have been duly given and funds available for the payment of such redemption price of the Bonds or such portions thereof so called for redemption shall have been duly provided, no additional interest shall accrue on such Bonds or such portions thereof from and after the redemption date specified in such notice.

All Bonds redeemed or purchased pursuant to the provisions of the Indenture shall be destroyed by the Trustee in accordance with its retention policy then in effect and the Trustee shall deliver a certificate of destruction to the District.

System Revenue Fund.

The Indenture establishes a special fund known as the "System Revenue Fund," which fund the District agrees and covenants to maintain and to hold separate and apart from other funds so long as any Bonds remain Outstanding. To the extent the District has an existing fund or funds which satisfies the foregoing requirements, then such fund or funds shall be deemed to be the "System Revenue Fund" and the District shall not be required to create a new fund. The District may maintain separate accounts within the System Revenue Fund.

The District shall, from the moneys in the System Revenue Fund, pay all Operation and Maintenance Costs (including amounts reasonably required to be set aside in contingency reserves for Operation and Maintenance Costs, the payment of which is not then immediately required) as such Operation and Maintenance Costs become due and payable. Thereafter, all funds in the System Revenue Fund shall be applied, used and withdrawn only for the purposes authorized in the Indenture and in the following order of priority. The District shall transfer amounts to the Trustee for payment of interest on and principal of the Bonds and any Parity Debt pursuant to paragraphs (a), (b), and (c) below at least three (3) Business Days prior to the Interest Payment Dates and Principal Payment Dates. If insufficient funds are available to satisfy the requirements of one or more of the paragraphs below, the funds shall be allocated pro rata in

proportion to the amount due with respect to the paragraph relating to the highest priority for which funds are available. Payments due with respect to Parity Obligations may be made to the parties provided in such Parity Obligation instead of the Trustee.

(a) Interest Account. The Trustee shall transfer from the System Revenue Fund and deposit in the Interest Account for receipt before April 1 and October 1 of each year (and on such other dates as provided in a Supplemental Indenture), beginning on October 1, 2010, an amount of money from the System Revenue Fund which is equal to the aggregate amount of the interest becoming due and payable on all Outstanding Bonds and Parity Obligations (subject to the terms of such Parity Obligations providing for such payments to be made to other parties) on such Interest Payment Date. No deposit need be made into the Interest Account if the amount contained therein is at least equal to the amount of the interest becoming due and payable on all Outstanding Bonds and Parity Obligations on such Interest Payment Date. All money in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Outstanding Bonds and Parity Obligations (including accrued interest on any Bonds and Parity Obligations (or portions thereof) purchased or redeemed prior to maturity); provided that any earnings on deposit in the Interest Account after payment of interest on Bonds and Parity Obligations on an Interest Payment Date shall be transferred to the System Revenue Fund.

(b) Principal Account. The Trustee shall deposit in the Principal Account before October 1 of each year (and on such other dates as provided in a Supplemental Indenture) an amount of money from the System Revenue Fund which, together with any money contained in the Principal Account, is equal to the aggregate amount of the principal becoming due and payable on all Outstanding Bonds and Parity Obligations (subject to the terms of such Parity Obligations) on such Principal Payment Date. No deposit need be made into the Principal Account if the amount contained therein is at least equal to the aggregate amount of the principal of all Outstanding Bonds and Parity Obligations on such Principal Payment Date. All money in the Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Outstanding Bonds and Parity Obligations as they shall become due and payable; provided that any earnings on deposit in the Principal Account after payment of principal of the Bonds on a Principal Payment Date shall be transferred to the System Revenue Fund. Within the Principal Account is created the Sinking Fund Account. The Trustee shall deposit in the Sinking Fund Account before October 1 of each year (and on such other dates as provided in a Supplemental Indenture), an amount of money from the System Revenue Fund equal to the Sinking Fund Account Installments payable on such Sinking Fund Account Payment Date. All money in the Sinking Fund Account shall be used by the Trustee to redeem or purchase the Term Bonds in accordance with the Indenture.

Events of Default and Acceleration of Maturities.

If one or more of the following events (an "Event of Default") shall happen, that is to say:

(a) If default shall be made in the due and punctual payment of the interest on any Bond or on any Parity Debt or when and as the same shall become due and payable; or

(b) If default shall be made in the due and punctual payment of the principal of any Bond or for any Parity Debt (including any sinking fund payments) when and as the same shall become due and payable, whether at maturity as therein expressed, by declaration or otherwise; or

(c) If default shall be made by the District in the performance of any of the other agreements or covenants required in the Master Indenture to be performed by it, and such default shall have continued for a period of sixty (60) days after the District shall have been given notice in writing of such default by the Trustee; provided that such default shall not constitute an Event of Default under the Master Indenture, if the District shall commence to cure such default within such sixty (60) day period and thereafter diligently and in good faith shall proceed to cure such default within a reasonable period of time; or

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

(e) If payment of the principal of any Parity Debt is accelerated in accordance with its terms;

then, and in each and every such case during the continuance of such Event of Default, the Trustee may, and upon the written request of the Owners of not less than twenty-five per cent (25%) in aggregate principal amount of the Bonds at the time Outstanding, shall, by notice in writing to the District, declare the principal of the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything contained in the Master Indenture or in the Bonds to the contrary notwithstanding; provided, that if, at any time after the principal of the Bonds shall have been so declared due and payable and before any judgment or decree for the payment of the money due shall have been obtained or entered, there shall be deposited 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, and the expenses of the Trustee, including attorneys' fees, together with interest on any such amounts advanced as provided in the Master Indenture, and any and all other defaults known to the Trustee (other than in the payment of interest and principal on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured or provision shall have 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 Agency and to the Trustee, may, on behalf of the Owners of all the Bonds, rescind and annul such declaration and its consequences; except that no such rescission or 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 Acceleration.

All money in the accounts and funds provided for in the Master Indenture upon the date of the declaration of acceleration by the Trustee as provided in the Master Indenture, and all System Revenues thereafter received by the District under the Master Indenture, shall be transmitted to the Trustee and shall be applied by the Trustee in the following order:

First, to the payment of the costs, fees and expenses of the Trustee, if any, including reasonable compensation to its agents, attorneys and counsel, and thereafter to the payment of the costs and expenses of the Owners in providing for the declaration of such Event of Default, including reasonable compensation to their agents, attorneys and counsel;

Second, to the payment of Operation and Maintenance Costs;

Third, upon presentation of the several Bonds, and the stamping thereon of the amount of the payment if only partially paid, or upon the surrender thereof if fully paid, to the payment of the whole amount then owing and unpaid upon the Bonds for interest and principal and in case such money shall be insufficient to pay in full the whole amount so owing and unpaid upon such Bonds then to the payment of such interest, principal, interest on overdue interest and principal and without preference or priority among such interest, principal, interest on overdue interest and principal and, ratably to the aggregate of such interest and principal and on the same or an equivalent basis to the payment of any Parity Obligations.

Insurance.

- (1) The District will procure and maintain at all times insurance on the System against such risks (including accident to or destruction of the System) as are usually insured in connection with operations similar to the System and, to the extent such insurance is available for reasonable premiums from a reputable insurance company, such insurance shall be adequate in amount and, as to the risks insured against, shall be maintained with responsible insurers; *provided*, that such insurance coverage may be satisfied under a self-insurance program which is actuarially sound.
- (2) The District shall procure and maintain or cause to be procured and maintained public liability insurance covering claims against the District (including its directors, officers and employees) for bodily injury or death, or damage to property occasioned by reason of the District's operations, including any use of the System, and such insurance shall afford protection in such amounts as are usually covered in connection with operations similar to the System; *provided*, that such insurance coverage may be satisfied under a self-insurance program which is actuarially sound.
- (3) If all or any part of the System shall be damaged or destroyed such that Net Proceeds of \$1,000,000 or more are received by the District, such Net Proceeds realized by the District therefrom shall be deposited by the District with the Trustee in a special fund which the Trustee shall establish as needed in trust and applied by the District to the cost of acquiring and constructing additions,

betterments, extensions or improvements to the System if the District first secures and files with the Trustee a Certificate of the District showing that the damage or destroyed facilities can be repaired or replaced in such a manner that the ability of the District to pay interest and principal with respect to the Bonds and any Parity Obligations when due will not be substantially impaired (such Certificate of the District shall be final and conclusive) and any balance of such proceeds not required by the District for such purpose shall be deposited in the System Revenue Fund and applied as provided in the Indenture, *provided*, that if the foregoing conditions are not met, then such proceeds shall be deposited with the Trustee in a special escrow account and applied to make payments of interest and principal with respect to the Bonds and any Parity Obligations as they come due.

If such damage or destruction have had no effect, or at most an immaterial effect, upon the System Revenues, and a Certificate of the District to such effect has been filed with the Trustee, then the District shall forthwith deposit such proceeds in the System Revenue Fund, to be applied as provided in the Indenture.

Eminent Domain Proceeds.

If all or any part of the System shall be taken by eminent domain proceedings, the Net Proceeds realized by the District therefrom shall be deposited by the District with the Trustee in a special fund which the Trustee shall establish as needed in trust and applied by the District to the cost of acquiring and constructing additions, betterments, extensions or improvements to the System if the District first secures and files with the Trustee a Certificate of the District showing that the taken facilities can be replaced so that the ability of the District to pay interest and principal with respect to the Bonds and any Parity Obligations when due will not be substantially impaired, and such Certificate of the District shall be final and conclusive, and any balance of such proceeds not required by the District for such purpose shall be deposited in the System Revenue Fund and applied as provided in the Indenture, *provided*, that if the foregoing conditions are not met, then such proceeds shall be deposited with the Trustee in a special escrow account and applied to pay interest and principal with respect to the Bonds and Parity Obligations as they become due.

If such eminent domain proceedings have had no effect, or at most an immaterial effect, upon the System Revenues and the security interest on the System Net Revenues created in the Indenture, and a Certificate of the District to such effect has been filed with the Trustee, then the District shall forthwith deposit such proceeds in the System Revenue Fund, to be applied as provided in the Indenture.

Procedure for Amendment of the Indenture.

The Indenture and the rights and obligations of the District and of the Owners of the Bonds may be amended at any time by a Supplemental Indenture which shall become binding when the written consents of the Owners of at least sixty per cent (60%) in aggregate principal amount of the Bonds then Outstanding (exclusive of Bonds disqualified as provided in the Indenture). No such amendment shall (1) extend the maturity of or reduce the interest rate on, or otherwise alter or impair the obligation of the District to pay the interest or principal or

redemption premium, if any, of any Bond, without the express written consent of the Owner of the affected Bond, or (2) permit the creation by the District of any mortgage, pledge or lien upon the Revenues superior to or on a parity with the pledge and lien created in the Indenture for the benefit of the Bonds, or (3) reduce the percentage of Bonds required for the written consent to any such amendment, or (4) modify the rights or obligations of the Trustee without its prior written assent thereto.

The Indenture and the rights and obligations of the District and of the Owners may also be amended at any time by a Supplemental Indenture which shall become binding upon execution, without the consent of any Owners, but only to the extent permitted by law and only for any one or more of the following purposes:

(a) To add to the agreements and covenants of the District other agreements and covenants thereafter to be observed, or to surrender any right or power in the Indenture reserved to or conferred upon the District;

(b) To make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision, or in regard to questions arising under the Indenture, as may deem necessary or desirable and not inconsistent therewith, and which shall not materially adversely affect the interests of the Owners of the Outstanding Bonds;

(c) To modify, amend or supplement the Indenture in such manner as to permit the qualification hereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which shall not materially adversely affect the interests of the Owners of the Bonds;

(d) To maintain the exclusion under the Code of interest on the Bonds from gross income for federal income tax purposes;

(e) To the extent necessary to maintain any then existing rating by Moody's (if Moody's is then rating the Bonds) or S&P (if S&P is then rating the Bonds);

(f) To issue Bonds and enter into Parity Debt in accordance with the Indenture; or

(g) For any other purpose that does not materially adversely affect the interests of the Owners of the Outstanding Bonds.

Discharge of Bonds.

If there shall be paid, to the Owners of all or a portion of the Outstanding Bonds the interest thereon and principal thereof and redemption premiums, if any, thereon at the times and in the manner stipulated therein, then the owners of such Bonds shall cease to be entitled to the pledge of Revenues as provided in the Indenture, and all agreements, covenants and other obligations of the District to the Owners of such Bonds under the Indenture shall thereupon cease, terminate and become void and be discharged and satisfied. In such event, the Trustee shall execute and deliver all such instruments as may be desirable to evidence such discharge and satisfaction, and the Trustee shall pay over or deliver to the District all money or securities held

by it pursuant hereto which secure only such Bonds (or are properly allocable under the terms hereof to such Bonds to be defeased) which are not required for the payment of such interest, principal and redemption premiums, if any, on such Bonds, other than the money, if any, in the Rebate Fund.

Any Outstanding Bonds for the payment of which money shall have been set aside to be held in trust by the Trustee for such payment at the maturity or redemption date thereof shall be deemed, as of the date of such setting aside, to have been paid within the meaning and with the effect expressed in the preceding paragraph.

Any Outstanding Bonds shall prior to the maturity date thereof be deemed to have been paid within the meaning and with the effect expressed in the first paragraph above if (1) there shall have been deposited with the Trustee either money in an amount which shall be sufficient, or Authorized Investments identified in paragraph 1(a) of the definition thereof ("Federal Securities") which are not subject to redemption prior to maturity (including any Federal Securities issued or held in book-entry form on the books of the Department of Treasury of the United States of America) the interest on and principal of which when paid will provide money which, together with the money, if any, deposited with the Trustee at the same time, shall be sufficient (as evidenced by a report of an Independent Certified Public Accountant obtained by the District and filed with the Trustee) to pay when due the interest due and to become due on such Bonds on and prior to the maturity date or redemption date thereof, and the principal of and redemption premiums, if any, on such Bonds on the maturity date or redemption date thereof, and (2) the District shall have given the Trustee a Written Request of the District containing irrevocable instructions to mail, as soon as practicable, a notice to the Owners of such Bonds that the deposit required by (1) above has been made with the Trustee and that such Bonds are deemed to have been paid in accordance with the Indenture and stating the maturity date or redemption date upon which money is to be available for the payment of the principal of and redemption premiums, if any, on such Bonds; *provided*, that neither the Federal Securities nor any money deposited with the Trustee nor any interest or principal payments on any such Federal Securities shall be withdrawn or used for any purpose other than, and such Federal Securities shall be held in trust for, the payment of the interest on and principal of and redemption premiums, if any, on such Bonds in the Indenture; and *provided further*, that any cash received from such interest or principal payments on such Federal Securities deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, be reinvested as specified in a Written Request of the District in Federal Securities maturing at times and in amounts sufficient to pay when due the interest on and principal of and redemption premiums, if any, on such Bonds on and prior to such maturity date or redemption date thereof, and interest earned from such reinvestments shall be deposited in the System Revenue Fund.

Liability of District Limited to System Revenues and Other Funds.

Notwithstanding anything contained in the Indenture, the District shall not be required to advance any money derived from any source of income other than the System Revenues, the System Revenue Fund and the other funds as provided in the Indenture for the payment of the interest on or the principal of or the redemption premiums, if any, on the Bonds or for the observance or performance of any agreements, conditions, covenants or terms contained in the Indenture.

The Bonds are limited obligations of the District and are payable, as to interest thereon and principal thereof and redemption premiums, if any, thereon, exclusively from the System Net Revenues and such other funds as provided under the Indenture, and the District is not obligated to pay them except from the System Net Revenues and such other funds. The obligation of the District to pay interest on, principal of and redemption premiums on, if any, the Bonds is a special obligation of the District payable solely from the System Net Revenues, and does not constitute a debt of the District or of the State of California or of any political subdivision thereof in contravention of any constitutional or statutory debt limitation or restriction.

Investment of Money in Funds and Accounts.

Unless otherwise directed by the District, the Trustee is hereby directed to invest all money in the Interest Account, the Principal Account, the Rebate Fund and any fund or account established under a Supplemental Indenture and held by the Trustee in the Authorized Investments.

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APPENDIX C

CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by West Valley Sanitation District of Santa Clara County (the “District”), dated April ____, 2010 in connection with the issuance of \$_____ West Valley Sanitation District (Santa Clara County, California) Sewer Revenue Refunding Bonds, Series 2010 (the “Bonds”). The Bonds are being issued pursuant to the Master Indenture, dated as of April 1, 2010 (the “Master Indenture”), by and between District and Union Bank, N.A., as trustee (the “Trustee”) and the First Supplemental Indenture, dated as of April 1, 2010 (the “Supplemental Indenture” and, and, collectively with the Master Indenture, the “Indenture”), by and between District and the 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 the Rule (as defined below).

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 Union Bank, N.A. or any successor Dissemination Agent designated in writing by the District and which has filed with the District a written acceptance of such designation.

“Listed Events” shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

“MSRB” means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, as amended.

“Official Statement” shall mean the Official Statement relating to the Bonds, dated _____, 2010.

“Participating Underwriter” shall mean _____, or any of its successors or assigns, required to comply with the Rule in connection with offering of the Bonds.

“Repository” means the MSRB, or any other information repository as recognized from time to time by the Securities and Exchange Commission for the purposes referred to in the Rule.

“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 210 days after the end of the District's fiscal year (presently such fiscal year ends June 30), commencing with the report for the fiscal year ending June 30, 2010, provide to the Repository 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 District's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) above, 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 Repository an Annual Report by the date required in subsection (a), the District shall send a notice to the Repository in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each Repository, if any; and

(ii) 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 and listing the Repositories to which it was provided.

SECTION 4. Content of Annual Reports. The District's Annual Report shall contain the CUSIP numbers of the Bonds and contain or include by reference the:

1. 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.

2. Updates for the last fiscal year of the information in the following tables in the Official Statement presented in substantially the same format as such tables (to the extent the Official Statement contains accurate information regarding the fiscal year covered by an Annual Report, no update shall be necessary):

(1) Table 5 entitled "West Valley Sanitation District Sewer Revenue Refunding Bonds, Series 2010 Largest Customers by Revenue"; and

(2) Table 12 entitled "West Valley Sanitation District Sewer Revenue Refunding Bonds, Series 2010 Historical and Projected Debt Service Coverage."

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 the Repository. 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, if material:

1. principal and interest payment delinquencies;
2. non-payment related defaults;
3. modifications to rights of Holders of the Bonds;
4. optional, contingent or unscheduled calls;
5. defeasances;
6. rating changes;
7. adverse tax opinions or events adversely affecting the tax-exempt status of the Bonds;
8. unscheduled draws on the debt service reserves reflecting financial difficulties;
9. unscheduled draws on credit enhancements reflecting financial difficulties;
10. substitution of credit or liquidity providers, or their failure to perform; and
11. release, substitution or sale of property securing repayment of the Bonds.

(b) Whenever the District obtains knowledge of the occurrence of a Listed Event, the District shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If the District determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the District shall promptly file a notice of such occurrence with the Repository.

SECTION 6. Filing. The District may satisfy its disclosure obligations hereunder to file any notice, document or information by filing the same with the MSRB through its Electronic Municipal Market Access system, in the format and with identifying or other information as may be required by the Securities and Exchange Commission or the MSRB, or any other Repository that may be recognized by the Securities and Exchange Commission, and in such manner as may be specified by the Securities and Exchange Commission.

SECTION 7. 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(c).

SECTION 8. Dissemination Agent. The District hereby appoints Union Bank, N.A. to serve as the initial Dissemination Agent hereunder. The District may, from time to time, appoint or engage a 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 9. 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.

The District acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the District, and that under some circumstances compliance with this Disclosure Certificate, without additional disclosures or other action, may not fully discharge all duties and obligations of the District under such laws.

SECTION 10. Default. In the event of a failure of the District 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 Holder 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 11. 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, 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) 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.

SECTION 12. 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. 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(c).

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.

WEST VALLEY SANITATION DISTRICT OF
SANTA CLARA COUNTY

By _____
Authorized Officer

Acknowledged as to Duties as Dissemination Agent:

UNION BANK, N.A.

By _____
Authorized Officer

[Signature Page to the Continuing Disclosure Certificate]

EXHIBIT A

FORM OF NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Obligated Party: West Valley Sanitation District of Santa Clara County
Name of Issue: West Valley Sanitation District of Santa Clara County Sewer Revenue Refunding Bonds, Series 2010
Date of Issuance: April __, 2010

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: _____

WEST VALLEY SANITATION DISTRICT OF
SANTA CLARA COUNTY

By _____ [form only; no signature required]

APPENDIX D
FORM OF BOND COUNSEL OPINION

[Closing Date]

West Valley Sanitation District of Santa Clara County
100 East Sunnyoaks Avenue
Campbell, CA 95008-6608

\$ _____
West Valley Sanitation District (Santa Clara County, California)
Sewer Revenue Refunding Bonds, Series 2010

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the West Valley Sanitation District of Santa Clara County (the “District”) of its Sewer Revenue Refunding Bonds, Series 2010 (the “Bonds”) in the aggregate principal amount of \$ _____. The Bonds are being issued pursuant to the Laws of the State of California pursuant to which the District was formed and operates and Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California and in each case all laws amendatory thereof or supplemental thereto, a resolution approving the issuance of the Bonds adopted by the Board of Directors of the District on March 10, 2010 (the “Authorizing Resolution”), a Master Indenture, dated as of April 1, 2010 (the “Master Indenture”), by and between the District and Union Bank, N.A. as trustee (the “Trustee”) and a First Supplemental Indenture, dated as of April 1, 2010 (the “Supplemental Indenture” and, collectively with the Master Indenture, the “Indenture”), by and between the District and the Trustee. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

In our capacity as bond counsel, we have reviewed the Authorizing Resolution, the Indenture, certifications and resolutions of the District, the Trustee and others, opinions of counsel to the District, and such other documents, opinions and instruments as we deemed necessary to render the opinions set forth herein.

Certain requirements and procedures contained or referred to in the Indenture and other relevant documents may be changed and certain actions may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of nationally recognized bond counsel. No opinion is

expressed herein as to any Bond or the interest thereon if any such change occurs or actions is taken or omitted upon the advice or approval of counsel other than ourselves.

We have assumed the genuineness of all documents and signatures presented to us. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in the documents. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for Federal income tax purposes. In addition, we call attention to the fact that the rights and obligations under the Bonds and the Indenture are subject to bankruptcy, insolvency, reorganization, arrangement, moratorium and other similar laws affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public agencies in the State of California.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding special limited obligations of the District.

2. The Indenture has been duly authorized, executed and delivered by, and constitutes the valid and binding obligation of, the District. The Indenture creates a valid pledge, to secure the payment of the principal of and interest on the Bonds and Parity Debt, of the System Net Revenues and certain other amounts held by the Trustee under the Indenture, as to the extent set forth in the Indenture and subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein.

3. The Bonds are special limited obligations of the District and are payable exclusively from and are secured by a pledge of System Net Revenues and certain amounts held under the Indenture.

4. Under existing statutes and court decisions, interest on the Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). Under the Code, interest on the Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. We are further of the opinion that, for any Bonds having original issue discount (a "Discount Bond"), original issue discount that has accrued and is properly allocable to the owners of the Discount Bonds under Section 1288 of the Code is excludable from gross income for federal income tax purposes to the same extent as other interest on the Bonds. In rendering the opinions in this paragraph, we have relied upon and assumed (i) the material accuracy of the representations, statements of intention and reasonable expectations, and certifications of fact, contained in the Tax Certificate delivered on the date hereof by the District with respect to the use of proceeds of the Bonds and the investment of certain funds, and other matters affecting the

non-inclusion of interest on the Bonds in gross income for Federal income tax purposes under Section 103 of the Code, and (ii) compliance by the District with procedures and covenants set forth in the Tax Certificate and with the tax covenants set forth in the Indenture as to such matters. Under the Code, failure to comply with such procedures and covenants may cause the interest on the Bonds to be included in gross income for Federal income tax purposes, retroactive to the date of issuance of the Bonds, irrespective of the date on which such noncompliance occurs or is ascertained.

5. Under existing statutes, interest on the Bonds is exempt from State of California personal income taxes.

Except as stated in paragraphs 4 and 5 above, we express no opinion as to any Federal, state or local tax consequences arising with respect to the Bonds or the ownership or disposition thereof. Furthermore, we express no opinion as to the effect of any action hereafter taken or not taken in reliance upon an opinion of counsel other than ourselves on the exclusion from gross income for Federal income tax purposes of interest on the Bonds, or under State and local tax law.

This opinion is issued as of the date hereof, and we assume no obligation to update, revise or supplement this opinion to reflect any action hereafter taken or not taken, or any facts or circumstances, or any changes in law or in interpretations thereof, that may hereafter arise or occur, or for any other reason.

Respectfully submitted,

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APPENDIX E BOOK-ENTRY SYSTEM

The information in this section concerning DTC and DTC's book-entry only system has been obtained by sources that the District believes to be reliable, however the District makes no representation as to the accuracy of completeness thereof.

1. The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Series 2010 Bonds (the “Securities”). The Securities 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 Security certificate will be issued for each issue of the Securities, each in the aggregate principal amount of such issue, and will be deposited with DTC.

2. DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates.

Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC’s records. The ownership interest of each actual purchaser of each Security (“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 Securities 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 Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities 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 Securities 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 Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities 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.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

6. Redemption notices shall be sent to DTC. If less than all of the Securities 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.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities 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 Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC,

the Paying Agent, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or Paying Agent, 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.

9. If applicable, a Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to tender/remarketing agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to tender/remarketing agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to tender/remarketing agent's DTC account.

10. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the District or Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

11. The District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.