

**NEW ISSUE-BOOK—ENTRY ONLY**

**RATINGS**

Moody's: *Aa2*  
Standard & Poor's: *AAA*

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



**\$40,105,000\***

**ALAMEDA COUNTY WATER DISTRICT FINANCING AUTHORITY  
WATER SYSTEM REVENUE BONDS, SERIES 2012**

**Dated: Date of Delivery**

**Due: June 1, as shown below**

The Alameda County Water District Financing Authority Water System Revenue Bonds, Series 2012 (the "Bonds"), will be issued pursuant to a Trust Agreement, dated as of February 1, 2012 (the "Trust Agreement"), by and between the Alameda County Water District Financing Authority (the "Agency") and U.S. Bank National Association, as Trustee (the "Trustee"). The Bonds will be issued in denominations of \$5,000 or any integral multiple thereof and will mature in the years and amounts set forth below. Interest on the Bonds is payable semiannually on June 1 and December 1, commencing June 1, 2012.

The Bonds will be issued as fully registered bonds and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Bonds. Individual purchases of the Bonds will be made in book-entry form only.

The Bonds are being issued by the Agency to provide funds to (i) finance the design, acquisition and construction of improvements to the Alameda County Water District's Water System (as defined herein), (ii) to prepay all of the outstanding Alameda County Water District Revenue Certificates of Participation (2003 Water System Project) of the Alameda County Water District (the "Water District"), as described herein, and (iii) pay the costs of issuing the Bonds.

The Bonds are secured by a pledge of Revenues, consisting of installment payments (the "2012 Installment Payments") and other payments paid by the Water District and received by the Agency pursuant to a 2012 Installment Purchase Contract, dated as of February 1, 2012, by and between the Agency and the Water District, and all interest or other income from any investment of any money in any fund or account established pursuant to the Trust Agreement (other than the Rebate Fund), and any other amounts held by the Trustee in any fund or account established under the Trust Agreement (other than amounts on deposit in the Rebate Fund).

The obligation of the Water District to make the 2012 Installment Payments is not subject to annual appropriation by the Water District.

The Bonds are subject to optional redemption and mandatory sinking fund redemption as described herein.

**THE BONDS ARE LIMITED OBLIGATIONS OF THE AGENCY AND ARE PAYABLE SOLELY FROM REVENUES AND THE OTHER ASSETS PLEDGED THEREFOR UNDER THE TRUST AGREEMENT.**

**THE OBLIGATION OF THE WATER DISTRICT TO MAKE THE 2012 INSTALLMENT PAYMENTS IS A LIMITED OBLIGATION OF THE WATER DISTRICT PAYABLE SOLELY FROM A PLEDGE OF NET REVENUES, AND NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE WATER DISTRICT, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS IS PLEDGED FOR THE PAYMENT THEREOF.**

**MATURITY SCHEDULE\***

<i>Maturity (June 1)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>	<i>Yield</i>	<i>CUSIP<sup>2</sup></i>	<i>Maturity (June 1)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>	<i>Yield</i>	<i>CUSIP<sup>†</sup></i>
2012					2021				
2013					2022				
2014					2023				
2015					2024				
2016					2025				
2017					2026				
2018					2027				
2019					2028				
2020									

\$ \_\_\_\_\_ % Term Bonds due June 1, 2041 – Yield \_\_\_\_\_ % CUSIP \_\_\_\_\_ †

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE OF BONDS. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION WITH RESPECT TO THE PURCHASE OF THE BONDS.

*The Bonds are offered when, as and if issued by the Agency and accepted by the initial purchaser, subject to the respective legal opinions of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Agency, and certain other conditions. Certain legal matters will be passed upon for the Agency and the Water District by Hanson Bridgett LLP. It is expected that the Bonds in book-entry form will be available for delivery through the facilities of DTC in New York, New York, on or about February 7, 2012.*

This Official Statement is dated January \_\_, 2012.

\* Preliminary, subject to change.

† Copyright, American Bankers Association. CUSIP data herein is provided by Standard and Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Service. CUSIP numbers are provided for convenience of reference only. Neither the Agency, the Water District nor the initial purchaser take any responsibility for the accuracy of such numbers.

Preliminary Official Statement and the information contained herein are subject to completion and amendment. 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 the registration or qualification under the securities laws of such jurisdiction.

No dealer, broker, salesperson or other person has been authorized by the Agency or the Water District to provide any information or to make any representations in connection with the offering or sale of the Bonds other than as contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized by the Agency or the Water District. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matter of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as a representation of facts. This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the Agency and the Water District.

The information set forth herein has been obtained from sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the initial purchaser, the Agency, or the Water District. The information and expression of opinion herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Agency or the Water District since the date hereof.

**THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.**

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE INITIAL PURCHASER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE INITIAL PURCHASER MAY OFFER AND SELL THE BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE INITIAL PURCHASER.

#### **FORWARD-LOOKING STATEMENTS**

Certain statements included or incorporated by reference in this Official Statement constitute forward-looking statements. Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “project,” “budget” or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. No assurance is given that actual results will meet the forecasts of the Agency or the Water District in any way, regardless of the level of optimism communicated in the information. The Agency and the Water District are not obligated to issue any updates or revisions to the forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based occur. Such forward-looking statements include, but are not limited to, the projections of future operating results of the Water District in Table 8 herein.

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

## AMENDED OFFICIAL NOTICE OF SALE

**\$45,240,000\***

### ALAMEDA COUNTY WATER DISTRICT FINANCING AUTHORITY WATER SYSTEM REVENUE BONDS, SERIES 2012

**NOTICE IS HEREBY GIVEN** that electronically transmitted bids through the PARITY® electronic bid submission system (“PARITY®”) will be received by a representative of the Alameda County Water District Financing Authority (the “Agency”) at the offices of Stone & Youngberg, a Division of Stifel Nicolaus, One Ferry Building, Suite 275, San Francisco, California 94111 (telephone (415) 445-2325), the Agency’s Financial Advisor (the “Financial Advisor), on

**Tuesday, January 24, 2012**

at the hour of 9:30 A.M. (California time) for the purchase of \$45,240,000\* principal amount of Alameda County Water District Financing Authority Water System Revenue Bonds, Series 2012 (the “Bonds”) (subject to postponement or cancellation in accordance with this Official Notice of Sale). Payments with respect to the Bonds will be secured by payments (the “Installment Payments”) to be made by the Alameda County Water District, a county water district organized and existing under and by virtue of the laws of the State of California (the “Water District”), to purchase the 2012 Water Project and the 2003 Water System Project (the “2003 Water System Project”) (thereby providing for the prepayment of the Water District’s Revenue Certificates of Participation (2003 Water System Project) (the “2003 Certificates”) of the Water District as defined in and pursuant to a 2012 Installment Purchase Contract to be executed and entered into as of February 1, 2012 (the “Installment Purchase Contract”) by and between the Water District and the Agency, a joint exercise of powers agency duly organized under the laws of the State of California; provided, that the Agency reserves the right to cancel or reschedule (1) the sale of the Bonds in its entirety, or (2) the portion of the sale of the Bonds relating to the prepayment of the 2003 Certificates in its sole discretion, upon notice given through Bloomberg Financial Markets or Thomson Municipal Market Monitor ([www.tm3.com](http://www.tm3.com)) not later than 3:00 p.m., Pacific Time on the business day prior to the day bids are scheduled to be received, and if the sale is rescheduled, notice of the new sale date and time will be given through the news service no later than 3:00 p.m., Pacific Time on the business day prior to the day bids will be received, and all bids will be received at the place set forth above at the rescheduled date and time of sale. Notice of any change to the principal payment schedule for the Bonds to be used for the bidding process will be given via PARITY® not later than 3:00 p.m. (California time) on the day prior to the date prescribed for the receipt of bids. Potential bidders must obtain any such revised principal payment schedule before bidding on the Bonds. See "Adjustment of Principal Amounts" below. The Bonds will be issued pursuant to and as more particularly described in a Trust Agreement to be executed and entered into as of February 1, 2012 (the “Trust Agreement”) by and between the Trustee and the Agency (which Trust Agreement is incorporated herein by reference), and copies of any such documents in substantially final form will be furnished by the Financial Advisor to

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\* Preliminary, subject to change.

any interested bidder upon request. As an accommodation to bidders, telephone or email notice of the change and of the new sale date and time will be given to any bidder requesting such notice from the Financial Advisor (telephone (415) 445-2325, email tlockard@syllc.com), Attention: Tom Lockard; provided, that failure of any bidder to receive such supplementary notice shall not affect the legality of the sale.

Bidders should refer to the Preliminary Official Statement for definitions of terms and credit information regarding the Bonds.

The Bonds hereby offered for sale are generally described as follows:

**ISSUE:** The Bonds will be executed only as fully registered certificates and when executed will be registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”), and DTC will act as securities depository for the Bonds. The Bonds will be executed and delivered in book-entry only form without coupons, all dated as of the date of their delivery (which delivery date is anticipated to be February 7, 2012), in the denominations of five thousand dollars (\$5,000) or any integral multiple thereof.

**PAYMENT DATES:** The Bonds are payable on June 1 in each of the years, and in the principal amounts, as set forth below:

Bond Payment Date (June 1)	Principal Amount*	Bond Payment Date (June 1)	Principal Amount*
2013	\$ 240,000	2027	\$2,815,000.
2014	250,000	2028	2,910,000
2015	255,000	2029	1,385,000
2016	265,000	2030	1,430,000
2017	275,000	2031	1,475,000
2018	280,000	2032	1,520,000
2019	290,000	2033	1,575,000
2020	300,000	2034	1,635,000
2021	2,335,000	2035	1,690,000
2022	2,400,000	2036	1,755,000
2023	2,465,000	2037	1,815,000
2024	2,545,000	2038	1,885,000
2025	2,635,000	2039	1,955,000
2026	2,725,000	2040	2,030,000
		2041	2,105,000

Bidders may provide that all of the Bonds be issued as serial Bonds or may provide that any two or more consecutive annual principal amounts ending with the final Bond payment date combined into term Bonds of one or more terms.

**ADJUSTMENT OF PRINCIPAL AMOUNTS:** The total principal amounts of the Bonds and the principal amount of the Bonds payable on each Bond payment date set forth in this Official Notice of Sale reflect certain estimates of the Agency, the Water District and the

Financial Advisor with respect to the likely interest rates of the successful bid and the premium or the discount contained in the successful bid. After selecting the successful bid, the total principal amount of the Bonds is subject to adjustment by the Agency and the principal amount of the Bonds payable on each Bond payment date is subject to adjustment by the Agency in five thousand dollar (\$5,000) increments to reflect the actual interest rates and any premium or discount contained in the successful bid in order to create a tailored debt service on the Bonds, provided, that any such adjustment will not change the total principal amount of the Bonds by more than 10% and will not cause the principal amount of the Bonds payable on any Bond payment date to increase or decrease by more than 10% from the amount shown in the table above under the paragraph captioned "PAYMENT DATES" or as amended prior to sale. The interest rates bid by the successful bidder will not be subject to adjustment. The successful bidder will be notified of any such adjustments within three (3) hours of the bid opening. **THE SUCCESSFUL BIDDER MAY NOT WITHDRAW ITS BID AS A RESULT OF ANY ADJUSTMENTS MADE WITHIN THE FOREGOING LIMITS.** The Agency will not be responsible if and to the extent that any adjustment affects: (i) the net compensation to be realized by the bidder, or (ii) the true interest cost of the winning bid or the ranking of any bid relative to other bids.

**INTEREST RATE:** The maximum interest rate on any Bond shall not exceed 5.5% per annum, payable on June 1, 2012, and semiannually thereafter on December 1 and June 1 of each year. Bidders must specify the rate or rates of interest evidenced and represented by the Bonds. Bidders may specify any number of separate rates and the same rate or rates may be repeated as often as desired; provided, that (i) each interest rate specified in any bid must be a multiple of one-eighth or one-twentieth of one per cent (1/8 or 1/20 of 1%) per annum and a zero rate of interest cannot be specified; (ii) no Bond shall evidence and represent more than one rate of interest; (iii) each Bond shall evidence and represent interest from its dated date to its stated payment date at the interest rate specified in the bid; (iv) all Bonds of the same Bond payment date shall evidence and represent the same rate of interest; (v) the difference between the lowest and highest rate of interest payable by the Agency on the principal amounts of the Bonds in any year ending on June 1 shall not exceed three per cent (3%) per annum; (vi) any premium must be paid in funds immediately available to the Trustee as part of the purchase price; and (vii) the maximum interest rate specified for the Bonds payable on any Bond payment date may not exceed 5.5% per annum.

**PREPAYMENT:** (a) Optional Prepayment.\* The Bonds are subject to redemption prior to their respective stated maturities at the direction of the Agency, from moneys deposited by the Agency or the Water District from any source of available funds, as a whole on any date, or in part (in such maturities as are designated by the Agency at the direction of the Water District) on any date on or after June 1, 2022, at a redemption price equal to the principal amount of Bonds called for redemption, together with accrued interest thereon to the date fixed for redemption, without premium.

(b) Mandatory Prepayment. If the successful bidder designates principal amounts of the Bonds to be combined into term Bonds, the term Bonds of such term Bond payment date shall be subject to mandatory prepayment prior thereto, upon notice as provided in

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\* Preliminary, subject to change.

the Trust Agreement, in part on each June 1 commencing on the June 1 of the first year which has been combined to form such term Bond payment date and continuing on June 1 in each year thereafter until maturity, in integral multiples of five thousand dollars (\$5,000), solely from scheduled Installment Payments made by the Agency, at a prepayment price equal to the sum of the principal amount or such part thereof evidenced and represented by the Bonds to be prepaid plus accrued interest evidenced and represented thereby to the date fixed for prepayment, without a redemption premium. The amount so prepaid in any year shall be equal to the principal amount for such year set forth in the table above under the paragraph captioned "PAYMENT DATES," as adjusted in accordance with the provisions described above in the paragraph captioned "ADJUSTMENT OF PRINCIPAL AMOUNTS."

**TRUSTEE:** U.S. Bank National Association is the Trustee for the payment of the principal of and interest on the Bonds and for the registration of the Bonds.

**PURPOSE:** The Bonds are authorized for the purpose of providing the financing for the acquisition and construction of the 2012 Water System Project constituting improvements to the water system of the Water District (the "Water System") and the prepayment of the 2003 Certificates.

**SECURITY:** The Bonds are secured by the Installment Payments to be made by the Water District under the Installment Purchase Contract. The obligation of the Water District to make Installment Payments is a special obligation of the Water District, and is payable from the Net Revenues (as that term is defined in the Installment Purchase Contract) of the Water System of the Water District and the other funds as provided in the Installment Purchase Contract, and does not constitute a debt of the Water District or the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction, and does not constitute an obligation for which the Water District is obligated to levy or pledge any form of taxation or for which the Water District has levied or pledged any form of taxation. The Agency has applied for and received ratings from Moody's Investor's Service and Standard & Poor's Ratings Services. Information on such ratings may be obtained from the Financial Advisor. The Agency will pay the fees for such ratings. Any additional ratings desired by the purchaser of the Bonds, as well as any fees associated with such additional ratings, will be the sole responsibility of the purchaser.

**LEGAL OPINION; TAX MATTERS:** The legal opinion of Orrick, Herrington & Sutcliffe LLP, San Francisco, California, Bond Counsel ("Bond Counsel") with respect to the validity of the Bonds and to the effect that the Bonds constitute valid and binding obligations of the Agency and that the interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes, will be furnished to the successful bidder without charge upon the delivery of the Bonds See the discussion of Tax Matters in the Official Statement hereinafter referred to.

## TERMS OF SALE

**HIGHEST BID:** The Bonds will be awarded to the highest responsible bidder, considering the interest rate or rates specified and the premium offered, if any, or the discount

bid, if any. If any bidder elects in its bid to purchase a policy of debt service insurance on the Bonds (as described in the paragraph below captioned "BOND INSURANCE"), the cost of such insurance will be treated as a discount (subject to the 1% limit as described in the paragraph below captioned "FORM OF BID; MAXIMUM DISCOUNT") in determining the best price for the Bonds. The highest responsible bidder will be the bidder submitting the best price for the Bonds, which best price will result in the lowest effective interest rate or true interest cost. The lowest effective interest rate will be computed in accordance with the true interest cost computed by doubling the semiannual interest rate (compounded semiannually) necessary to discount debt service payments from their respective payment dates to the dated date of the Bonds and to the price bid (including any premium or discount). For purposes of calculating the true interest cost, the principal amount of the Bonds designated by the bidder for mandatory sinking fund prepayment as part of a term Bond, if any, will be treated as a serial maturity in each year. In the event two or more bids offer the same lowest true interest cost, the Agency reserves the right to exercise its own discretion and judgment in making the award. The cost of preparing the Bonds will be borne by the Agency.

**FORM OF BID; MAXIMUM DISCOUNT:** All bids must be for not less than all of the Bonds hereby offered for sale and for not less than ninety-nine per cent (99%) of the principal amount thereof plus accrued interest (if any) to the date of delivery, and no bid will be accepted which provides for the waiver of interest or other concession by the bidder as a substitute for payment in full of the purchase price of the Bonds. The amount of discount specified in any bid shall not exceed one per cent (1%) of the aggregate principal amount of the Bonds.

A prescribed bid form ("Bid Form") for the Bonds will be provided electronically by PARITY®. Each bid for the Bonds must be submitted electronically via PARITY®. For purposes of submitting all bids, the time as maintained by PARITY® shall constitute the official time.

**WARNINGS REGARDING ELECTRONIC BIDS:** NEITHER THE AGENCY NOR THE FINANCIAL ADVISOR NOR BOND COUNSEL SHALL BE RESPONSIBLE FOR, AND THE BIDDER EXPRESSLY ASSUMES THE RISK FOR, ANY INCOMPLETE, INACCURATE OR UNTIMELY BID SUBMITTED VIA PARITY® BY SUCH BIDDER, INCLUDING, WITHOUT LIMITATION, BY REASON OF GARBLED TRANSMISSION, MECHANICAL FAILURE, ENGAGED TELEPHONE OR TELECOMMUNICATIONS LINES, OR ANY OTHER CAUSE ARISING FROM DELIVERY VIA PARITY®.

All bids shall be deemed to constitute a bid for purchase of the Bonds (each a "Bid") and shall be deemed to incorporate by reference all of the terms and conditions of this Official Notice of Sale. The submission of a Bid electronically via PARITY® shall constitute and be deemed the bidder's signature on the Bid Form.

**PROCEDURES REGARDING ELECTRONIC BIDDING:** All bids must be submitted electronically via PARITY® in accordance with this Official Notice of Sale, until 9:30 a.m., Pacific Time, January 24, 2012, but no Bid will be received after the time for receiving bids specified above. To the extent any instructions or directions set forth on PARITY® conflict with this Official Notice of Sale, the terms of this Official Notice of Sale shall control. For further

information about PARITY®, potential bidders may contact PARITY® or the Financial Advisor. The bidder further agrees that:

1. The terms of the Official Notice of Sale and the information that is electronically transmitted through PARITY® shall form a contract and the bidder shall be bound by the terms of such contract.

2. PARITY® is not an agent of the Agency, and the Agency shall have no liability whatsoever based on any bidder's use of PARITY®, including but not limited to any failure by PARITY® to correctly or timely transmit information provided by the Agency or information provided by the bidder.

3. The Agency may choose to discontinue use of electronic bidding via PARITY® by issuing a notification to such effect via PARITY's internet site (www.tm3.com) no later than 3:00 p.m. (Pacific Time) on the last business day prior to the day bids are to be received.

4. Once the Bids are communicated electronically via PARITY® to the Agency as described above, each Bid shall be deemed to be an irrevocable offer to purchase the Bonds on the terms provided in this Official Notice of Sale.

5. Each bidder choosing to submit a Bid shall be solely responsible to make necessary arrangements to access PARITY® for purposes of submitting its Bid in a timely manner and in compliance with this Official Notice of Sale. Neither the Agency nor Dalcomp shall have any duty or obligation to undertake such registration to bid for any prospective bidder or to provide or assure such access to any qualified prospective bidder, and neither the Agency nor Dalcomp shall be responsible for a bidder's failure to register to bid or for proper operation of, or have any liability for any delays or interruptions of, or any damages caused by, PARITY®. The Agency is using PARITY® as a communication mechanism, and not as the Agency's agent, to conduct the electronic bidding for the Bonds. By using PARITY®, each bidder agrees to hold the Agency harmless for any harm or damages caused to such bidder in connection with its use of PARITY® for bidding on the Bonds.

No Bid received after the deadline shall be considered. In any case, each Bid must be in accordance with the terms and conditions set forth in this Official Notice of Sale.

**RIGHT TO MODIFY OR AMEND:** The Agency reserves the right, in its sole discretion, to modify or amend this Official Notice of Sale including, but not limited to, (i) the right to adjust and change the principal amount and principal amortization schedule of the Bonds being offered, and (ii) the right to cancel or reschedule the portion of the sale of the Bonds relating to the prepayment of the 2003 Certificates in its sole discretion; provided, however, that such modifications or amendments shall be made not later than 3:00 P.M., California time, on the business day prior to the bid opening and communicated through PARITY®.

**RIGHT TO POSTPONEMENT OR CANCELLATION:** The Agency may postpone or cancel the sale prior to the time bids are to be received as provided on page one hereof, provided that notice is communicated to prospective bidders through PARITY® prior to the time then scheduled for the receipt of such bids. Notice of a new time, or of a new date and



time, if any, will be given through PARITY®, telephone or facsimile as soon as practicable following a postponement. In the event of a postponement of the sale only, any subsequent bid submitted by the bidder will supersede any prior bid made. Failure of any bidder to receive notice of any postponement or cancellation shall not invalidate the sufficiency of any such notice.

**RIGHT OF REJECTION:** The Agency reserves the right, in its sole discretion, to reject any or all bids and to waive any irregularity or informality in any bid.

**PROMPT AWARD:** The Agency will take action awarding the Bonds or rejecting all bids not later than three (3) hours after the expiration of the time herein prescribed for the receipt of the bids, unless such time of award is waived by the successful bidder. Notice of the award will be given promptly to the successful bidder.

**DELIVERY AND PAYMENT:** The Bonds will be delivered to the successful bidder through the facilities of DTC in New York, New York, as soon as the Bonds can be prepared, which it is estimated will be on or about February 7, 2012. Payment for the Bonds must be made to the Trustee in immediately available funds in San Francisco, California, on their delivery date in an amount equal to the price bid for the Bonds less the amount of the good faith deposit as described in the paragraph below captioned “GOOD FAITH DEPOSIT”. Any expense of providing immediately available funds, whether by transfer of Federal Reserve Bank funds or otherwise, shall be borne by the successful bidder.

**RIGHT OF CANCELLATION:** The successful bidder shall have the right, at its option, to cancel its obligation to purchase the Bonds if the Bonds are not executed and tendered for delivery within sixty (60) days from the date of sale thereof, and in such event the successful bidder shall be entitled to the return of the good faith deposit accompanying its bid.

**GOOD FAITH DEPOSIT:** The successful bidder will be required to deposit with the Agency, within 24 hours of the award of sale of the Bonds, a good faith deposit in the amount of \$500,000 (the “Good Faith Deposit”), to protect the Agency against any loss resulting from the successful bidder’s failure to comply with the terms of its bid. The Good Faith Deposit shall be delivered to the Agency by wire transfer pursuant to instructions delivered by the Agency to the successful bidder. No interest will be paid upon the Good Faith Deposit. The Good Faith Deposit will become the property of the Agency. The Good Faith Deposit will be held and invested for the exclusive benefit of the Agency. The Good Faith Deposit, without interest thereon, will be credited against the purchase price of the Bonds purchased by the winning bidder at the time of delivery thereof.

**ESTIMATE OF TRUE INTEREST COST:** Bidders are requested, but not required, to supply an estimate of the true interest cost to the Agency (determined in accordance with the paragraph above captioned “HIGHEST BID”) on the basis of their respective bids, which will be considered as informative only and not binding on either the bidder or the Agency.

**CUSIP NUMBERS AND OTHER FEES:** It is expected that the successful bidder will apply for CUSIP identification numbers for the Bonds, and furnish such numbers to Bond Counsel and to the Financial Advisor. It is anticipated that such CUSIP numbers will be printed on the Bonds, but neither the failure to print such number on any Bond nor any error with

respect thereto shall constitute cause for a failure or refusal by the successful bidder to accept delivery of and pay for the Bonds in accordance with the terms and conditions of its bid. All expenses in relation to the printing of CUSIP numbers on the Bonds shall be paid by the Agency, but the CUSIP Service Bureau charge for the assignment of such numbers shall be paid by the successful bidder. The successful bidder shall also be required to pay all fees required by The Depository Trust Company, New York, New York, the Bond Market Association, the Municipal Securities Rulemaking Board and any other similar entity imposing a fee in connection with the issuance of the Bonds.

**CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION**

**FEE:** Attention of bidders is directed to California Government Code Section 8856, which provides that the lead underwriter or the purchaser of the Bonds shall be charged any California Debt and Investment Advisory Commission fee payable with respect to the Bonds.

**BLUE SKY LAWS:** The successful bidder will be responsible for the clearance or exemption with respect to the status of the Bonds for sale under the securities or “Blue Sky” laws of the several states and the preparation of any surveys or memoranda in connection therewith.

**NO LITIGATION:** There is no litigation pending concerning the validity of the Bonds, the Installment Purchase Contract, the Trust Agreement, the corporate existence of the Agency or the entitlement of the officers thereof to their respective offices or the corporate existence of the Corporation or the entitlement of the officers thereof to their respective offices, and the Agency and the Corporation will furnish to the successful bidder a Certificate or Certificates certifying to the foregoing as of and at the time of the delivery of the Bonds.

**CERTIFICATION OF REOFFERING PRICES:** The successful bidder shall be required, as a condition to delivery of the Bonds, to certify to the Agency in writing, in form and substance satisfactory to the Agency and to Bond Counsel, (i) that as of the date of sale, all of the Bonds purchased were expected to be reoffered in a bona fide public offering; (ii) that as of the date of the certification, all of the Bonds purchased had actually been offered to the general public; and (iii) the maximum initial bona fide offering prices at which a substantial amount (at least 10%) of each maturity of the Bonds purchased was sold to the general public.

**OFFICIAL STATEMENT:** The Agency has authorized the distribution of an Preliminary Official Statement relating to the Bonds. A copy of the Preliminary Official Statement will be furnished upon request to the Financial Advisor, Stone & Youngberg, a Division of Stifel Nicolaus, One Ferry Building, Suite 275, San Francisco, California 94111, telephone (415) 445-2325, email tlockard@syllc.com. The Preliminary Official Statement is in form that has been “deemed final” by the Agency for purposes of Securities and Exchange Commission Rule 15c2-12(b)(1), but is subject to revision, amendment and completion in a Final Official Statement. The Agency will furnish to the successful bidder for the Bonds, at no expense to the successful bidder, up to 25 copies of the Final Official Statement within seven (7) business days of the award date.

**OFFICIAL STATEMENT CERTIFICATE:** The Agency will provide to the successful bidder for the Bonds a certificate, signed by an official of the Agency, confirming to the successful bidder that, at the time of the acceptance of the bid for the Bonds and at the time

of delivery thereof, to the best of the knowledge of said official, the Official Statement (except for information regarding DTC and its book-entry only system as to which no view shall be expressed) does not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading, and that there has been no material adverse change in the financial condition or affairs of the Agency which would make it unreasonable for the purchaser of the Bonds to rely upon the Official Statement in connection with the resale of the Bonds.

**CONTINUING DISCLOSURE CERTIFICATE:** In order to assist bidders in complying with Securities and Exchange Commission Rule 15c2-12(b)(5), the Agency will undertake, pursuant to a Continuing Disclosure Certificate, to provide certain annual financial information and notices of the occurrence of certain events. A description of this undertaking is set forth in the Preliminary Official Statement and will also be set forth in the Final Official Statement. The Agency represents that it has never failed to comply in all material respects with any previous undertakings with regard to said Rule to provide annual reports or notices of material events.

Dated: January 20, 2012.

/s/ Shelley Burgett  
Treasurer of the Alameda County Water District  
Financing Authority

■■■  
■■■■■

**ALAMEDA COUNTY WATER DISTRICT FINANCING AUTHORITY**

---

**BOARD OF DIRECTORS**

John H. Weed, *President*  
James G. Gunther, *Vice President*  
Judy C. Huang, *Member*  
Martin L. Koller, *Member*  
Paul Sethy, *Member*  
Jennifer Toy, *Member*

**WATER DISTRICT OFFICERS AND STAFF**

Walter L. Wadlow, *General Manager*  
Shelley Burgett, *Manager of Finance*  
Robert T. Shaver, *Assistant General Manager - Engineering*  
Altarine Vernon, *Manager of Administrative Services*  
Steve Peterson, *Manager of Operations and Maintenance*  
Michael D. Yee, *Financial Services Manager*

**PROFESSIONAL SERVICES**

**BOND COUNSEL**

Orrick, Herrington & Sutcliffe LLP  
San Francisco, California

**WATER DISTRICT COUNSEL**

Hanson Bridgett LLP  
San Francisco, California

**FINANCIAL ADVISOR**

Stone & Youngberg, a Division of Stifel Nicolaus  
San Francisco, California

**VERIFICATION AGENT**

Causey, Demgen & Moore Inc.  
Denver, Colorado

**TRUSTEE**

U.S. Bank National Association  
San Francisco, California

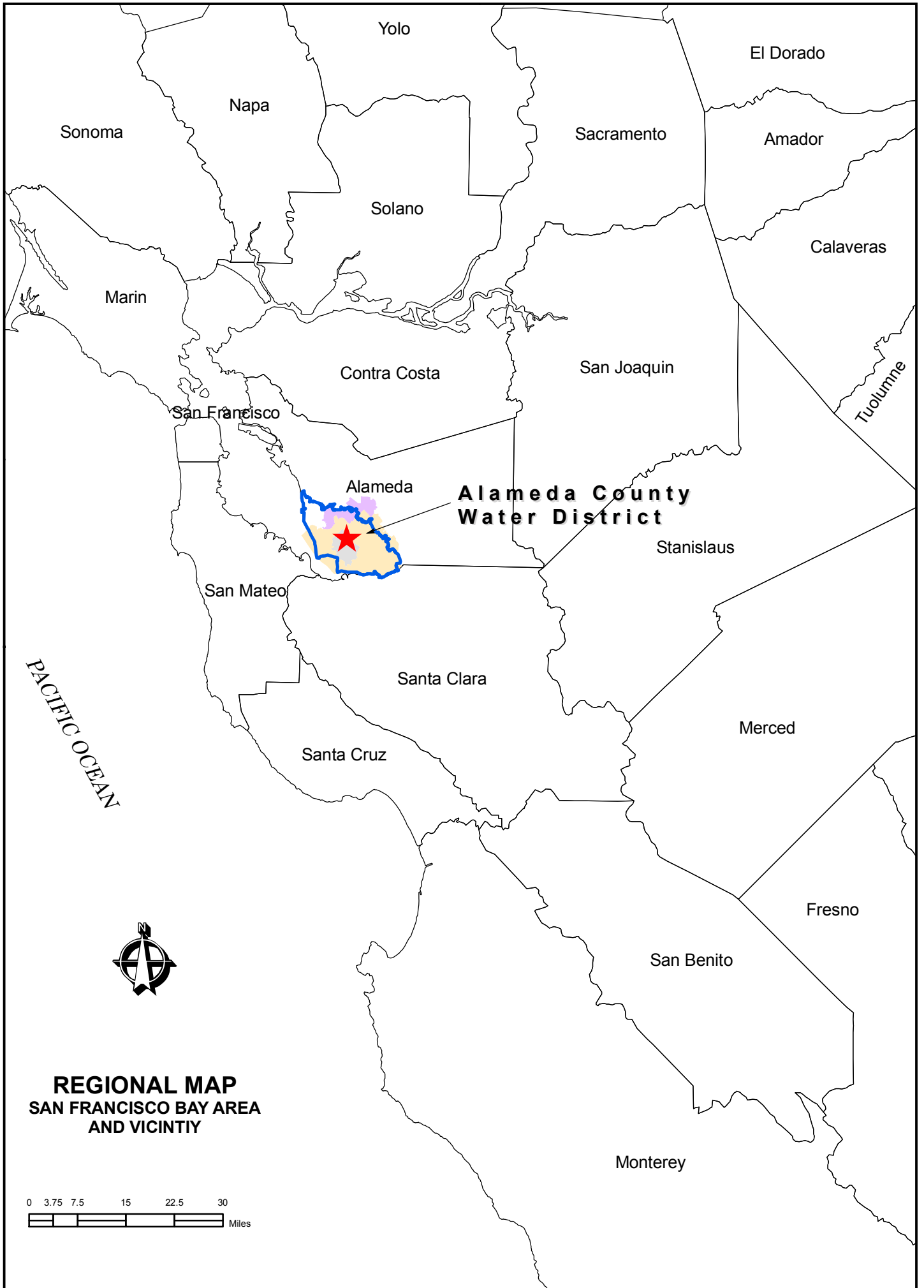
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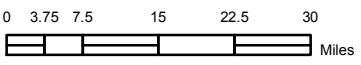
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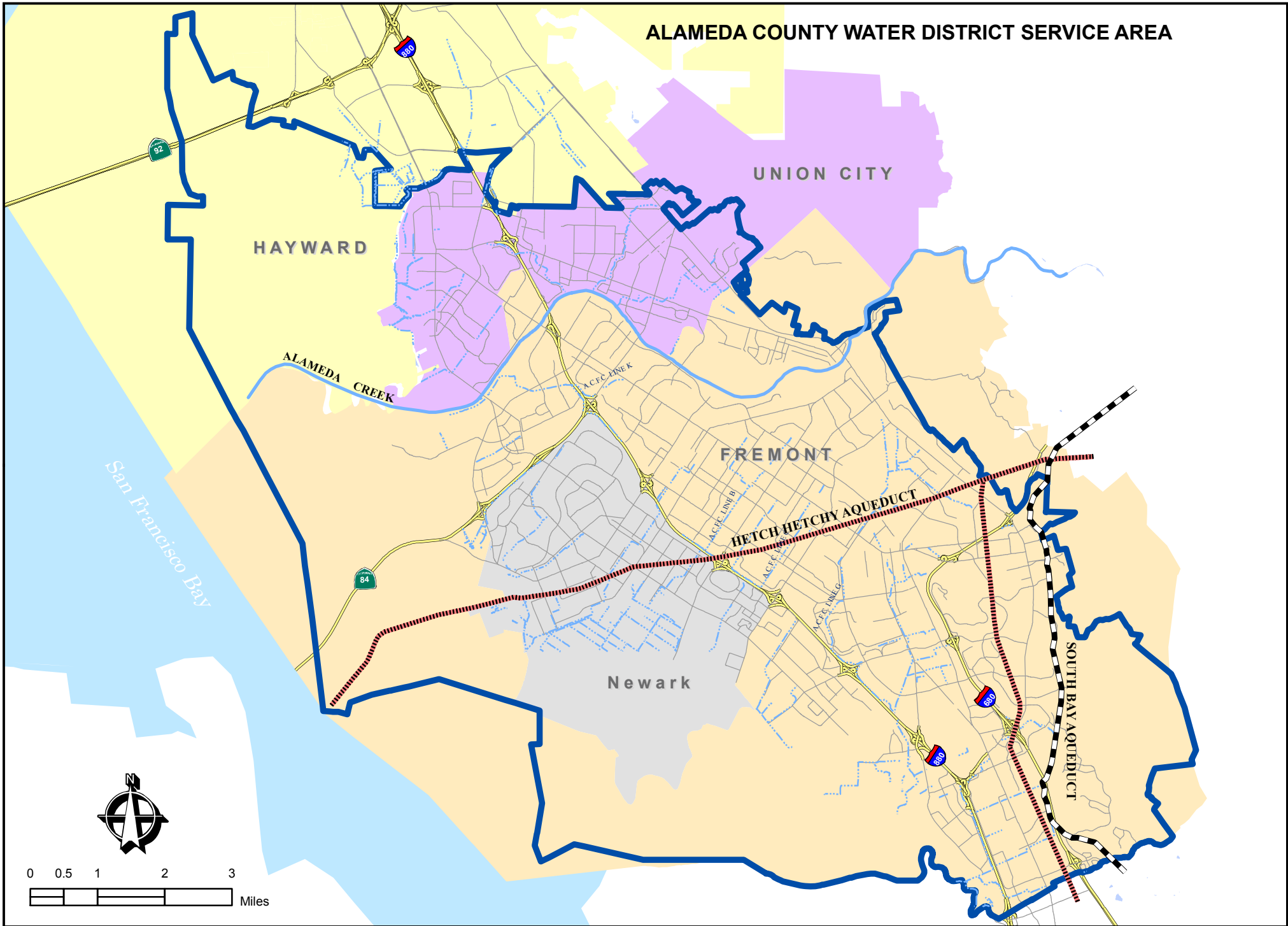


**REGIONAL MAP  
SAN FRANCISCO BAY AREA  
AND VICINTIY**





# ALAMEDA COUNTY WATER DISTRICT SERVICE AREA



HAYWARD

UNION CITY

ALAMEDA CREEK

ACFC LINE A

FREMONT

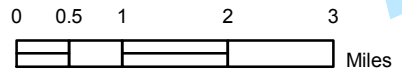
HETCH HETCHY AQUEDUCT

Newark

ACFC LINE B

SOUTH BAY AQUEDUCT

San Francisco Bay



## **OFFICIAL STATEMENT**

**\$40,105,000\***

### **ALAMEDA COUNTY WATER DISTRICT FINANCING AUTHORITY WATER SYSTEM REVENUE BONDS, SERIES 2012**

#### **INTRODUCTION**

This Official Statement, including the cover page and Appendices hereto, is provided to furnish certain information in connection with the offering of Alameda County Water District Financing Authority Water System Revenue Bonds, Series 2012 (the “Bonds”), in the aggregate principal amount of \$40,105,000.\* Certain capitalized terms used herein are defined in “APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.”

The Bonds are secured by a pledge of Revenues, consisting of installment payments to be made by the Alameda County Water District (the “Water District”), pursuant to the 2012 Installment Purchase Contract, dated as of January 1, 2012 (the “2012 Installment Purchase Contract”), by and between the Water District and the Alameda County Water District Financing Authority, a joint exercise of powers agency (the “Agency”), and all interest and or other income from any investment of any money in any fund or account established pursuant to the Trust Agreement, dated as of January 1, 2012 (the “Trust Agreement”), by and between the Agency and U.S. Bank National Association, as Trustee (the “Trustee”) (except the Rebate Fund), and any other amounts held by the Trustee in any fund or account established under the Trust Agreement (other than amounts on deposit in the Rebate Fund). The Agency is a joint exercise of powers authority organized under the laws of the State of California (the “State”) and composed of the Water District and Union Sanitary District, a public sanitary district duly organized and existing under and pursuant to the Sanitary District Act of 1923 (“USD”).

The 2012 Installment Purchase Contract is being executed and delivered to (i) finance the design, acquisition and construction of various components of the Water District’s Water System, (ii) to prepay all of the outstanding Alameda County Water District Revenue Certificates of Participation (2003 Water System Project) (the “2003 Certificates”), and (iii) to pay the costs of issuing the Bonds. See “FINANCING PLAN” herein. The Trust Agreement defines “Water System” as all facilities for the pumping, storage, transmission and treatment of water now owned by the Water District and all other properties, structures or works hereafter acquired and constructed by the Water District and determined to be a part of the Water System, together with all additions, betterments, extensions or improvements to such facilities, properties, structures or works or any part thereof hereafter acquired and constructed.

The Bonds are being issued pursuant to the Joint Exercise of Powers Act (being Chapter 5 of Division 7 of Title 1 of the California Government Code, as amended) (the “Act”) and the Trust Agreement. Pursuant to the Trust Agreement, the Agency will assign to the Trustee, for the benefit of the registered owners of the Bonds, all its rights to receive the payments of principal and interest payable by the Water District under the 2012 Installment Purchase Contract (the “2012 Installment Payments”) and certain other rights and interests of the Agency in the 2012 Installment Purchase Contract. The Agency shall not have any obligation or liability to the Bond owners with respect to the Water District’s performance of its obligations

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\* Preliminary, subject to change.

under the 2012 Installment Purchase Contract.

**The Bonds are limited obligations of the Agency and are payable solely from Revenues and the other assets pledged therefor under the Trust Agreement. The obligation of the Water District to make the 2012 Installment Payments is a limited obligation payable solely from a pledge of Net Revenues (as defined below), and neither the full faith and credit nor the taxing power of the Water District, the State of California or any of its political subdivisions is pledged for the payment thereof.**

### **The Agency**

The Agency was created by a Joint Exercise of Powers Agreement, dated as of November 14, 2011 between USD and the Water District. The agreement was entered into pursuant to the provisions of Articles 1, 2 and 4, Chapter 5, Division 7, Title 1 of the California Government Code. The Agency is empowered to assist in financing projects and certain public improvements, such as the design, acquisition and construction of additions, betterments and improvements to the Water System. Under the Act, the Agency has the power to issue revenue bonds to assist in the financing of public capital improvements.

### **The District**

The Water District is a special district formed under California law. The Water District is located in southern Alameda County along the southeastern shore of San Francisco Bay in the State. It includes the cities of Fremont, Newark and Union City, and serves a population of approximately 328,000 as of June 2011. The District provides water service and manages the Niles Cone Groundwater Basin in its service area.

### **Sources of Payment for the Bonds**

*Trust Agreement.* The payment of principal of and interest on the Bonds is secured solely by a pledge of the Revenues, consisting of mainly 2012 Installment Payments and other payments paid by the Water District and received by the Agency pursuant to the 2012 Installment Purchase Contract. The obligation of the Water District to make the 2012 Installment Payments is a limited obligation of the Water District payable solely from a Pledge of Net Revenues. “Net Revenues” means, for any period, an amount equal to all of the Revenues (as hereinafter defined) received during such period less the amount of Maintenance and Operation Costs becoming payable during such period. See “SECURITY FOR THE BONDS – Net Revenues; Pledge of Net Revenues.”

*Rate Covenant.* In the 2012 Installment Purchase Contract, the Water District has covenanted that it will fix, prescribe and collect rates, fees and charges for the services and facilities furnished by the Water District’s Water System during each fiscal year, which are at least sufficient to yield in each fiscal year Net Revenues equal to 125 percent of the Debt Service for such fiscal year. See “SECURITY FOR THE BONDS – Rate Covenant.”

*Parity Obligations.* Additional obligations and bonds issued or incurred on a parity with or subordinate to the Bonds may be issued pursuant to the 2012 Installment Purchase Contract provided that certain conditions are met. The Water District executed and delivered (i) the 2003 Certificates and (ii) \$26,340,000 of 2009 Water System Refunding Revenue Bonds (the “2009

Bonds”). The Bonds, when issued, will be secured by a pledge of Net Revenues on a parity with the Water District’s obligation to make debt service payments with respect to the 2009 Bonds. There are currently \$25,000,000 in outstanding 2003 Certificates and \$21,885,000 in outstanding 2009 Bonds. See “SECURITY FOR THE BONDS – Parity Obligations.” A portion of the proceeds of the Bonds will be used to prepay all of the 2003 Certificates.

### **Continuing Disclosure**

The Water District has covenanted, for and on behalf of itself and the Agency, for the benefit of owners of the Bonds to provide certain financial information and operating data relating to the Water District by not later than seven months after the end of the Water District’s fiscal year (which is currently June 30) in each year commencing with the report for the Fiscal Year 2011-12 (the “Annual Report”) and to provide notices of the occurrence of certain enumerated events. The Annual Report and notices of material events will all be filed with the Municipal Securities Rulemaking Board. These covenants have been made in order to assist the initial purchasers in complying with Securities Exchange Commission Rule 15c2-12(b)(5) (the “Rule”). The specific nature of the information to be contained in the Annual Report or the notices of material events by the Water District is set forth in APPENDIX C – “Form of Continuing Disclosure Certificate.” The Water District has not previously defaulted on any obligation to provide an annual report in accordance with the Rule with respect to any bond issue of the Water District.

### **Summaries Not Definitive**

Brief descriptions of the Bonds, the security for the Bonds and the Water District are provided herein. Such descriptions do not purport to be comprehensive or definitive. Definitions of certain capitalized terms used herein may be found in APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - Certain Definitions. All references made to various documents herein are qualified in their entirety by reference to the forms thereof, all of which are available for inspection at the office of the Manager of Finance of the Water District.

## **THE BONDS**

### **General**

The Bonds will be issued in denominations of \$5,000 or any integral multiple thereof, and will be dated the date of delivery thereof and will mature on June 1 in the years and in the amounts set forth on the cover page hereof. Interest on the Bonds is payable from their dated date at the rates set forth on the cover page hereof, on June 1 and December 1 of each year, commencing June 1, 2012.

The Bonds, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC,” and, together with any successor securities depository, the “Securities Depository”). DTC will act as Securities Depository for the Bonds so purchased. Individual purchases will be made only in book-entry form. Purchasers will not receive physical certificates representing their beneficial ownership interest in the Bonds. So long as the Bonds are registered in the name of Cede & Co., payment of the principal of, premium, if any, and interest on the Bonds will be payable to DTC or its

nominee. DTC in turn will remit such payments to DTC Participants for subsequent disbursement to the Beneficial Owners. See “APPENDIX F – BOOK-ENTRY ONLY SYSTEM.”

THE BONDS ARE LIMITED OBLIGATIONS OF THE AGENCY AND ARE PAYABLE, AS TO INTEREST THEREON, PRINCIPAL THEREOF AND ANY PREMIUMS UPON THE REDEMPTION OF ANY THEREOF, SOLELY FROM THE REVENUES (AS DEFINED IN THE TRUST AGREEMENT), AND THE AGENCY IS NOT OBLIGATED TO PAY THE INTEREST OR PREMIUM, IF ANY, ON AND PRINCIPAL OF THE BONDS EXCEPT FROM REVENUES. THE AGENCY HAS NO TAXING POWER AND THE FULL FAITH AND CREDIT OF THE WATER DISTRICT IS NOT PLEDGED FOR THE PAYMENT OF THE INTEREST ON OR PRINCIPAL OF THE BONDS. NO TAX SHALL EVER BE LEVIED OR COLLECTED TO PAY THE INTEREST ON OR PRINCIPAL OF THE BONDS. THIS BOND IS NOT SECURED BY A LEGAL OR EQUITABLE PLEDGE OF OR CHARGE OR LIEN UPON ANY PROPERTY OF THE AGENCY OR ANY OF ITS INCOME OR RECEIPTS EXCEPT THE REVENUES.

### **Redemption**

*Optional Redemption.\** The Bonds are subject to optional redemption prior to their respective stated maturities at the direction of the Agency, from moneys deposited by the Agency or the Water District from any source of available funds, in whole on any date, or in part (in such maturities as are designated by the Agency at the direction of the Water District) on any date on or after June 1, 2022, at a redemption price equal 100 percent of the principal amount of Bonds called for redemption, together with accrued interest thereon to the date fixed for redemption, without premium.

*Mandatory Sinking Fund Redemption.* The Bonds are subject to redemption prior to their respective stated maturities, on any June 1 on or after June 1, 20\_\_, in part by lot, from mandatory sinking account payments at a redemption price equal to the principal amount thereof and interest accrued thereon to the date fixed for redemption date, without premium, as set forth below.

Sinking Fund Redemption Date ( <u>June 1</u> )	Principal <u>Amount</u>
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\* Preliminary, subject to change.

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<sup>†</sup>Final Maturity

*Partial Redemption of the Bonds.* If less than all Outstanding Bonds maturing by their terms on any one date are to be redeemed at any one time, the Trustee shall select the Bonds and maturity date to be redeemed in any manner that it deems appropriate and fair and shall promptly notify the Agency in writing of the numbers of such Bonds so selected for redemption. For purposes of such selection, Bonds shall be deemed to be composed of \$5,000 multiples and any such multiple may be separately redeemed.

#### **Notice, Rescission and Effect of Redemption**

*Notice of Redemption.* Notice of redemption is required to be mailed by first-class mail by the Trustee, not less than 30 nor more than 60 days prior to the redemption date to (i) the respective Holders of the Bonds designated for redemption at their addresses appearing on the registration books of the Trustee, (ii) the Securities Depositories and (iii) one or more Information Services. Notice of redemption to the Securities Depositories and the Information Services is required to be given by registered mail or overnight delivery or facsimile transmission. Each notice of redemption is required to state the date of such notice, the Series being redeemed, the redemption price, if any (including the name and appropriate address of the Trustee), the CUSIP number (if any) of the maturity or maturities, and if less than all of any such maturity is to be redeemed, the distinctive certificate 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 is also required to state that on said date there will become due and payable on each of said Bonds to be redeemed in part only, the specified portion of the principal amount thereof to be redeemed, together with interest accrued thereon to the redemption date, and that from and after such redemption date interest thereon will cease to accrue, and require that the Bonds be then surrendered at the address of the Trustee specified in the redemption notice.

So long as the Bonds are held in book-entry only form, notice of redemption will be mailed by the Trustee only to DTC and not to the Beneficial Owners of Bonds under the DTC book-entry only system. Neither the Agency nor the Trustee is responsible for notifying the Beneficial Owners, who are to be notified in accordance with the procedures in effect for the DTC book-entry system. See “APPENDIX F – BOOK-ENTRY ONLY SYSTEM”.

Neither the failure to receive any such notice of redemption nor any defect therein will affect the validity of the proceedings for the redemption of such Bonds or the cessation of the accrual of interest on the redemption date. Neither the Agency nor the Trustee shall have any responsibility for any defect in CUSIP numbers which appears on any Bond or in any redemption notice with respect thereto.

*Conditional Notice of Optional Redemption.* Any notice of optional redemption of the Bonds may be conditional and if any condition stated in the notice of redemption is not satisfied on or prior to the redemption date, said notice will be of no force and effect and the Agency (at the direction of the Water District) will not redeem such Bonds. The Trustee will within a reasonable time thereafter give notice, to the persons and in the manner in which the notice of redemption was given, that such condition or conditions were not met and that the redemption was cancelled.

*Right to Rescind Redemption.* The Agency (at the direction of the Water District) has the right to rescind any redemption by written notice of rescission. Any notice of redemption will be cancelled and annulled if for any reason funds are not available on the date fixed for redemption for the payment in full of the Bonds then called for redemption, and such cancellation shall not constitute an Event of Default under the Trust Agreement. The Trustee will mail notice of rescission of such redemption in the same manner as the original notice of redemption was sent.

*Effect of Redemption.* If notice of redemption is given as provided in the Trust Agreement and money for the payment of the redemption price of the Bonds called for redemption is held by the Trustee, then on the redemption date designated in such notice the Bonds so called for redemption will become due and payable, and from and after such redemption date interest on such Bonds will cease to accrue, and the Holders of such Bonds will have no rights in respect thereof except to receive payment of the redemption price thereof.

## **FINANCING PLAN**

### **The 2012 Water Projects**

A portion of the proceeds of the Bonds will be used to finance capital projects related to improving seismic reliability, replacing aging infrastructure, improving water supply reliability through environmental stewardship, and improving water quality and production reliability (collectively, the “2012 Water Projects.”)

### **Plan of Refunding**

A portion of the proceeds of the Bonds, together with other available monies, will be used, pursuant to an escrow agreement between U.S. Bank National Association (the “Escrow Agent”) and the Water District, dated as of February 1, 2012 (the “Escrow Agreement”), to pay the prepayment price of the 2003 Certificates authorized by the Trust Agreement, dated as of November 1, 2003, by and among U.S. Bank National Association, as trustee, Alameda County Water District Public Facilities Financing Corporation (the “2003 Corporation”), and the Water District. Amounts deposited with the Escrow Agent will be held in trust for the payment of the prepayment price on the 2003 Certificates.

**ESTIMATED SOURCES AND USES OF FUNDS**

The sources and uses of funds in connection with the Bonds are anticipated to be as follows:

**SOURCES:**

Principal Amount of the Bonds.....	\$ _____
[Net/Plus] Original Issue [Premium/Discount].....	_____
Funds of the Water District relating to the 2003 Certificates .....	_____
TOTAL.....	\$ _____

**USES:**

Escrow Fund relating to the 2003 Certificates.....	\$ _____
2012 Acquisition Fund.....	_____
Underwriter’s Discount .....	_____
Cost of Issuance <sup>1</sup> .....	_____
TOTAL.....	\$ _____

<sup>1</sup> Includes legal fees, financial advisory fees, printing expenses and other costs relating to the execution and delivery of the Bonds.

**DEBT SERVICE REQUIREMENTS**

Annual debt service on the Bonds is presented below.

<i>Period Ending (June 1)</i>	<i>Principal</i>	<i>Interest</i>	<i>Period Debt Service</i>
-----------------------------------	------------------	-----------------	----------------------------

**SECURITY FOR THE BONDS**

Capitalized terms used herein and not otherwise defined shall have the meanings set forth in APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - Certain Definitions.



## General

The Bonds are secured by a pledge of Revenues, consisting of the 2012 Installment Payments and other payments paid by the Water District and received by the Agency pursuant to the 2012 Installment Purchase Contract and all interest or other income from any investment of any money in any fund or account established pursuant to the Trust Agreement (other than the Rebate Fund), and any other amounts held by the Trustee in any fund or account established under the Trust Agreement (other than amounts on deposit in the Rebate Fund).

**The Bonds are limited obligations of the Agency and are payable solely from Revenues and the other assets pledged therefor under the Trust Agreement. The obligation of the Water District to make the 2012 Installment Payments is a limited obligation of the Water District payable solely from a pledge of Net Revenues, and neither the full faith and credit nor the taxing power of the Water District, the State of California or any of its political subdivisions is pledged for the payment thereof.**

## Pledge of Revenues

“Revenues” is defined in the Trust Agreement to mean all 2012 Installment Payments and other payments paid by the Water District and received by the Agency pursuant to the 2012 Installment Purchase Contract and all interest or other income from any investment of any money in any fund or account established pursuant to the Trust Agreement (other than the Rebate Fund).

All Revenues and any other amounts held by the Trustee in any fund or account established under the Trust Agreement (other than amounts on deposit in the Rebate Fund) are irrevocably pledged to the payment of the interest and premium, if any, on and principal of the Bonds as provided in the Trust Agreement, and the Revenues are not permitted to be used for any other purpose while any of the Bonds remain Outstanding. The pledge of Revenues under the Trust Agreement constitutes a first pledge of and charge and lien upon the Revenues and all other moneys on deposit in the funds and accounts established under the Trust Agreement (other than amounts on deposit in the Rebate Fund) for the payment of the interest on and principal of the Bonds in accordance with the terms of the Trust Agreement.

## Deposit of Revenues; Funds and Accounts

Under the Trust Agreement, all Revenues are required to be deposited in the Revenue Fund and all money in the Revenue Fund is required to be disbursed, allocated, and applied by the Trustee solely for the uses and purposes set forth in the Trust Agreement.

*Allocation of Revenues.* The Trustee is required under the Trust Agreement to set aside the moneys in the Revenue Fund in the following respective accounts or funds in the following order of priority:

- First: Interest Account
- Second: Principal Account

*Interest Account.* On or before each June 1 and December 1, commencing June 1, 2012, the Trustee is required to set aside from the Revenue Fund and deposit in the Interest Account

that amount of money that is equal to the amount of interest coming due and payable on all Outstanding Bonds on such June 1 or December 1.

No deposit need be made in the Interest Account if the amount contained therein is at least equal to the aggregate amount of interest becoming due and payable on all Bonds on such interest payment date.

All money in the Interest Account will be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Bonds as it becomes due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity).

*Principal Account.* On each June 1, the Trustee is required to set aside from the Revenue Fund and deposit in the Principal Account an amount of money equal to the principal amount of all Outstanding Serial Bonds maturing or becoming subject to mandatory sinking account redemption on such June 1.

No deposit need be made in the Principal Account if the amount contained therein is at least equal to the aggregate amount of the principal of all Outstanding Bonds maturing or becoming subject to mandatory sinking account redemption by their terms on such June 1.

All money in the Principal Account is required to be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Bonds as it becomes due and payable, whether at maturity or redemption.

No debt service reserve fund to secure the Bonds is created under the Trust Agreement.

## **2012 Installment Payments**

Pursuant to the 2012 Installment Purchase Contract, the Water District is obligated to make 2012 Installment Payments, solely from Net Revenues, the combined totals of which 2012 Installment Payments equal the principal of and interest on the Bonds. The obligation of the Water District to pay such 2012 Installment Payments is absolute and unconditional, and until such time as the 2012 Installment Payments have been paid in full (or provision for the payment thereof shall have been made pursuant to the 2012 Installment Purchase Contract, the Water District will not discontinue or suspend any 2012 Installment Payments required to be paid by it under the 2012 Installment Purchase Contract required to be paid when due, whether or not the Water System or any part thereof is operating or operable, or its use is suspended, interfered with, reduced, curtailed or terminated in whole or in part, and such payments will not be subject to reduction whether by offset, abatement or otherwise and will not be conditional upon the performance or nonperformance by any party to any agreement for any cause whatsoever. The obligation of the Water District to make the 2012 Installment Payments is not subject to annual appropriation by the Water District.

The obligation of the Water District to make the 2012 Installment Payments pursuant to the 2012 Installment Purchase Contract is a limited obligation of the Water District payable solely from a pledge of Revenues, and neither the full faith and credit nor the taxing power of the Water District, the State of California or any of its political subdivisions is pledged for the payment of the 2012 Installment Payments.

## Net Revenues

*Pledge of Net Revenues.* Under the 2012 Installment Purchase Contract, all Net Revenues are irrevocably pledged to the payment on a parity of the 2012 Installment Payments and all other Installment Payments and Bonds, and the Net Revenues shall not be used for any other purpose while any of the 2012 Installment Payments remain unpaid; provided, that out of the Net Revenues there may be apportioned such sums for such purposes as described below. The pledge under the 2012 Installment Purchase Contract constitutes a first lien on the Net Revenues for the payment of the 2012 Installment Payments and all other Installment Purchase Contracts and Bonds in accordance with the terms of the 2012 Installment Purchase Contract, and the 2012 Installment Payments shall be secured by and payable on a parity with all such payments.

“Net Revenues” are defined in the 2012 Installment Purchase Contract as, for any designated period, the Revenues during such period, less the Maintenance and Operation Costs during such period.

“Revenues” are defined in the 2012 Installment Purchase Contract as all gross income and revenue received or receivable by the Water District from the ownership or operation of the Water System, determined in accordance with Generally Accepted Accounting Principles, including all rates, charges and connection fees received by the Water District for water and the other services of the Water System and all proceeds of insurance covering business interruption loss relating to the Water System and all other income and revenue howsoever derived by the Water District from the ownership or operation of the Water System, but excluding all proceeds of taxes and all refundable deposits made to establish credit and advances or contributions in aid of construction.

“Maintenance and Operation Costs” are defined in the 2012 Installment Purchase Contract as the reasonable and necessary costs paid or incurred by the Water District for maintaining and operating the Water System, determined in accordance with Generally Accepted Accounting Principles, including all costs of water purchased for the Water System (except those costs paid from taxes), and including all reasonable expenses of management and repair and all other expenses necessary to maintain and preserve the Water System in good repair and working order, and including all administrative costs of the Water District that are charged directly or apportioned to the operation of the Water System, such as salaries and wages of employees, overhead, taxes (if any) and insurance premiums, and including all other reasonable and necessary costs of the Water District or charges required to be paid by it to comply with the terms of the 2012 Installment Purchase Contract and of any resolution authorizing the execution of any Installment Purchase Contract or of such Installment Purchase Contract or of any resolution or indenture authorizing the issuance of any Bonds or of such Bonds, such as compensation, reimbursement and indemnification of the trustee, seller or lessor for any such Installment Purchase Contracts or Bonds and fees and expenses of Independent Certified Public Accountants and Independent Engineers, but excluding in all cases depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles.

*Allocation of Revenues.* In order to carry out and effectuate the pledge and lien of Net Revenues, the Water District agrees and covenants in the 2012 Installment Purchase Contract that all Revenues shall be received by the Water District in trust under the 2012 Installment

Purchase Contract and shall be deposited when and as received in the Water District Revenue Fund, which fund the Water District agrees and covenants to continue to maintain in the treasury of the Water District so long as any 2012 Installment Payments remain unpaid, and all money in the Water District Revenue Fund shall be applied and used as provided in the 2012 Installment Purchase Contract. The Water District is obligated under the 2012 Installment Purchase Contract to pay all Maintenance and Operation Costs (including amounts reasonably required to be set aside in contingency reserves for Maintenance and Operation Costs the payment of which is not then immediately required) from the Water District Revenue Fund as they become due and payable, and all remaining money in the Water District Revenue Fund shall be set aside by the Water District at the following times in the Revenue Fund (to be held by the Trustee, and which is established under the 2012 Installment Purchase Contract and which the Water District agrees and covenants to maintain so long as any 2012 Installment Payments remain unpaid).

On or before the fifth (5th) Business Day before June 1 and December 1 of each year, beginning in June 1, 2012, the Water District shall, from the money in the Water District Revenue Fund, transfer to the Trustee (on a parity with the transfers for the payment of all other Debt Service) for deposit in the Revenue Fund a sum equal to the amount of the interest installment becoming due under the 2012 Installment Purchase Contract on the next succeeding June 1 or December 1, as the case may be, and on or before the fifth (5th) Business Day before June 1 of each year, beginning in June 1, 2012, the Water District shall, from the money in the Revenue Fund, transfer to the Trustee (on a parity with the transfers for the payment of all other Debt Service) for deposit in the Revenue Fund a sum equal to the amount of the principal installment becoming due under the 2012 Installment Purchase Contract on the next succeeding June 1.

No transfer to and deposit in the Revenue Fund need be made if the amount available and contained therein is at least equal to the amount of the interest installment becoming due under the 2012 Installment Purchase Contract on the next succeeding June 1 or December 1, as the case may be, plus (in the case of deposits required to be made on or before the fifth (5th) Business Day before each June 1) the amount of the principal installment becoming due hereunder on the next succeeding June 1.

On June 1 of each year, beginning in 2012, all remaining money in the Revenue Fund, after the foregoing deposits have been made, may be withdrawn from the Revenue Fund and deposited by the Water District in such fund as it may determine for expenditure for any lawful purpose of the Water District.

### **Rate Covenant**

The Water District covenants under the 2012 Installment Purchase Contract that it will fix, prescribe and collect charges, fees and rates for the Water Service which are reasonably fair and nondiscriminatory and which will be at least sufficient to yield, during each Fiscal Year, Net Revenues equal to one hundred twenty-five per cent (125%) of the Debt Service for such Fiscal Year. The Water District may make adjustments from time to time in such charges, fees and rates and may make such classification thereof as it deems necessary, but shall not reduce the charges, fees and rates then in effect unless the Net Revenues from such reduced charges, fees and rates will at all times be sufficient to meet the requirements described in this section. If for any Fiscal Year the Water District does not meet the rate covenant, the Water District covenants

under the 2012 Installment Purchase Contract to engage an Independent Engineer to recommend revised charges, fees and rates, and the Water District will, to the extent practicable and subject to applicable requirements and restrictions imposed by law and subject to a good faith determination by the Water District that such recommendations, in whole or in part, are in the best interests of the Water District, implement such revised charges, fees and rates so as to produce the necessary Net Revenues.

### **Parity Obligations**

The 2012 Installment Purchase Contract provides that the Water District will not incur any obligations payable from the Net Revenues superior to the payment of the 2012 Installment Payments, although the Water District may at any time execute any Installment Purchase Contract or issue any water revenue bonds (“Parity Bonds”), as the case may be, to finance or refinance any Project the Debt Service on which Installment Purchase Contract or Parity Bonds are payable on a parity with the payment by the Water District of the 2012 Installment Payments from the Net Revenues, provided that the following conditions are met:

(a) The Net Revenues for the most recently audited fiscal year preceding the date of the adoption by the Board of Directors of the resolution authorizing the execution of such Installment Purchase Contract or the issuance of such Parity Bonds, as the case may be (including adjustments to give effect to increases or decreases in charges, fees or rates for the use of the Water System approved and in effect as of the date of calculation), calculated (with respect to fees) on the basis of the average annual connection fees, annexation fees and other one-time fees received by the Water District during the immediately preceding three audited fiscal year period, as evidenced by both a calculation prepared by the Water District and a special report prepared by an Independent Certified Public Accountant on such calculation on file with the Water District, shall have produced a sum equal to at least one hundred twenty-five percent (125%) of the Debt Service for such fiscal year on all then outstanding Installment Purchase Contracts and Parity Bonds; and

(b) The estimated Net Revenues for the first fiscal year after the latest Date of Operation of any uncompleted Project (or the period for which interest is capitalized, whichever is longer), as evidenced by a calculation prepared by an Independent Engineer on file with the Water District, plus (after giving effect to the completion of all uncompleted Projects) an allowance for estimated Revenues for such fiscal year arising from any increase in the charges, fees or rates estimated to be fixed and prescribed for the use of the Water System in an amount equal to ninety percent (90%) of the amount by which such Revenues would have been increased if such increase had been in effect during such fiscal year (as similarly evidenced), shall produce a sum equal to at least one hundred twenty-five percent (125%) of the estimated Debt Service for such fiscal year; after giving effect, in either case, to the execution of all Installment Purchase Contracts and the issuance of all Parity Bonds estimated to be required to be executed or issued to pay the costs of completing all uncompleted Projects, assuming that all such Installment Purchase Contracts and Parity Bonds have maturities, interest rates and proportionate principal repayment provisions similar to the Installment Purchase Contract last executed or then being

executed or the Parity Bonds last issued or then being issued for the purpose of acquiring and constructing any of such uncompleted Projects; and

(c) The Project to be acquired and constructed with the proceeds of such Installment Purchase Contract or such Parity Bonds, as the case may be, is technically feasible and the estimated cost of the acquisition and construction thereof is reasonable, and (after giving effect to the completion of all uncompleted Projects) the rates, fees and charges estimated to be fixed and prescribed for the use of the Water System for such fiscal year from the fiscal year in which such Installment Purchase Contract is executed or such Parity Bonds are issued, as the case may be, to and including the first complete fiscal year after the latest Date of Operation of any uncompleted Project are economically feasible and reasonably considered necessary based on projected operations for such period, as evidenced by an Engineer's Report (prepared at the time of the execution of the initial Installment Purchase Contract or the issuance of the initial Bonds, as the case may be, for the purpose of acquiring and constructing the Project) on file with the Water District;

provided, that notwithstanding the foregoing conditions, any Installment Purchase Contract may be executed and delivered and any Bonds may be issued without regard to such conditions if the Debt Service in each fiscal year after the execution and delivery of any such Installment Purchase Contract or the issuance of any such Bonds, as the case may be, is not increased by reason of the execution and delivery of such Installment Purchase Contract or the issuance of such Bonds; and provided further, that notwithstanding the foregoing conditions, no such Installment Purchase Contract shall be executed and delivered nor such Bonds shall be issued if an Event of Default shall have occurred and shall be then continuing.

The Bonds, when issued, will be secured by a pledge of Net Revenues on a parity with the Water District's obligation to make debt service payments on the 2009 Bonds.

### **Eminent Domain Proceeds**

The 2012 Installment Purchase Contract provides that if all or any part of the Water System is taken by eminent domain proceedings, then if: (1) the Water District obtains and files with the Trustee an Engineer's Report showing (i) the estimated loss of annual Net Revenues, if any, suffered or to be suffered by the Water District by reason of such eminent domain proceedings, (ii) a general description of the additions, betterments, extensions or improvements to the Water System proposed to be acquired and constructed by the Water District from such Net Proceeds, and (iii) an estimate of the additional annual Net Revenues to be derived from such additions, betterments, extensions or improvements, and (2) the Water District, on the basis of such Engineer's Report, determines that the estimated additional annual Net Revenues will sufficiently offset the estimated loss of annual Net Revenues resulting from such eminent domain proceedings so that the ability of the Water District to meet its obligations under the 2012 Installment Purchase Contract will not be substantially impaired (which determination shall be final and conclusive), then the Water District shall promptly proceed with the acquisition and construction of such additions, betterments, extensions or improvements substantially in accordance with such Engineer's Report and such Net Proceeds shall be applied as set forth in a Written Request of the Water District for the payment of the costs of such acquisition and construction, and any balance of such Net Proceeds not required by the Water District for such

purpose shall be deposited in the Water District Revenue Fund.

### **Insurance**

The Water District covenants in the 2012 Installment Purchase Contract to procure and maintain insurance on the Water System with responsible insurers in such amounts and against such risks (including accident to or destruction of the Water System) as are usually covered in connection with water systems similar to the Water System so long as such insurance is available from reputable insurance companies. In the event of any damage to or destruction of the Water System caused by the perils covered by such insurance, the Net Proceeds thereof shall be applied to the reconstruction, repair or replacement promptly after such damage or destruction shall occur, and the Water District shall continue and properly complete such reconstruction, repair or replacement as expeditiously as possible, and shall pay out of such Net Proceeds all costs and expenses in connection with such reconstruction, repair or replacement so that the same shall be completed and the Water System shall be free and clear of all claims and liens.

The Water District further covenants in the 2012 Installment Purchase Contract to procure and maintain such other insurance which it shall deem advisable or necessary to protect its interests and the interests of the Owners, which insurance shall afford protection in such amounts and against such risks as are usually covered in connection with water systems similar to the Water System; provided, that any such insurance may be maintained under a self-insurance program so long as such self-insurance is maintained in the amounts and manner usually maintained in connection with water systems similar to the Water System.

## **CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS AND CHARGES**

### **Article XIII B**

At the statewide special election of November 6, 1979, the voters approved an initiative entitled "Limitation of Government Appropriations" which added Article XIII B to the California Constitution. Under Article XIII B, State and local governmental entities have an annual "appropriations limit" which limits the ability to spend certain monies which are called "appropriations subject to limitation" (consisting of tax revenues, State subventions and certain other funds) in an amount higher than the "appropriations." 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 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 required an expenditure for additional services or which unavoidably make the providing of existing services more costly.

It is the position of the Water District that the water fees and charges it imposes for use of the Water System do not exceed the costs it reasonably bears in providing such services and therefore are not subject to the limits of Article XIII B.

### **Proposition 218**

On November 5, 1996, the voters of the State approved Proposition 218, the so-called “Right to Vote on Taxes Act.” Proposition 218 added Articles XIIC and XIID to the State Constitution, which contain a number of provisions affecting the ability of local governments to levy and collect both existing and future taxes, assessments, fees and charges.

*Article XIIC.* Article XIIC removes limitations on the initiative power in matters of local taxes, assessments, fees and charges. In *Bighorn-Desert View Water Agency v. Beringson* (“Bighorn”), decided by the California Supreme Court on July 24, 2006, the petitioner sought to establish his right to reduce a local water agency’s water rates and fees and charges through use of the initiative power. In holding for the petitioner on this issue, the court stated that the absence of a restrictive definition of “fee” or “charge” in Article XIIC suggests that those terms include all levies that are ordinarily understood to be fees or charges, including all of the property-related fees and charges subject to Article XIID. Though the Supreme Court did not arrive at an exact definition of such terms, it did determine that fees and charges that are fees and charges within the meaning of Article XIID are necessarily fees and charges within the meaning of Article XIIC. See “Article XIID” below. The Court held that Article XIIC authorizes the use of the initiative process to reduce water rate and other delivery charges, but that it does not authorize use of the initiative power to impose a voter-approval requirement on future increases or new water delivery charges. The court declined to determine whether the initiative power is limited by other statutory provisions requiring that water service charges be set at a level that will pay system expenses and debt service since that issue was not before the court.

Consequently, the voters of the Water District could, by future initiative, seek to repeal or reduce any local tax, assessment, fee or charge, including the Water District’s water service fees and charges, which are the source of Net Revenues pledged to the payment of debt service on the Bonds. Though the use of the initiative power is arguably limited in the case of levies directly pledged to bonded indebtedness, such as the fees and charges imposed by the Water District for services of the Water System that are pledged to the payment of the Bonds, there can be no assurance that the voters of the Water District will not seek to approve an initiative which attempts to reduce the fees and charges imposed by the Water System securing the Bonds.

*Article XIID.* Article XIID established procedural requirements for imposition of assessments, which are defined as any charge on real property for a special benefit conferred



upon the real property. Standby charges are classified as assessments. Procedural requirements include the conducting of a public hearing and an election by mailed ballot, with notice to the record owner of each parcel subject to the assessment. The assessment may not be imposed if a majority of the ballots returned oppose the assessment, with each ballot weighted according to the proportional financial obligation of the affected parcel. The Water District does not believe that its connection fees would be classified as standby charges or assessments for the Water System.

Article XIID conditions the imposition or increase of any “fee” or “charge” upon there being no written majority protest after a required public hearing and voter approval for fees and charges other than for sewer, water or refuse collection services. Article XIID defines “fee” or “charge” to mean levies (other than ad valorem or special taxes or assessments) imposed by a local government upon a parcel or upon a person as an incident of the ownership or tenancy of real property, including a user fee or charge for a “property-related service.” One of the requirements of Article XIID is that before a property related fee or charge may be imposed or increased, a public hearing upon the proposed fee or charge must be held and mailed notice sent to the record owner of each identified parcel of land upon which the fee or charge is proposed for imposition. In the public hearing, if written protests of the proposed fee or charge are presented by a majority of the owners of affected identified parcel(s), an agency may not impose the fee or charge.

In *Richmond et al. v. Shasta Community Services District* (“Richmond”), the California Supreme Court held that a water connection fee was not a “property-related” fee and charge subject to Article XIID. However, in the opinion, the California Supreme Court suggested in dicta that fees for ongoing water service through an existing connection were “property related” fees and charges imposed on a person as an incident of property ownership. The court addressed this issue directly in the *Bighorn* case discussed above. In its decision, the court relied on its discussion in *Richmond* to reach the conclusion that fees and charges for ongoing water service through an existing connection are “property-related” fees and charges imposed on a person as an incident of property ownership for purposes of Article XIID whether the fees and charges are calculated based on usage or are imposed as a fixed monthly fee.

The Water District has complied with the procedures required by Article XIID in connection with the increase in the water fees and charges approved by the Board of Directors. See “DISTRICT AND WATER SYSTEM INFORMATION – Rates and Charges” herein.

In addition to the procedural requirements of Article XIID, under Article XIID, all property related fees and charges, including those which were in existence prior to the passage of Proposition 218 in November 1996, must meet the following substantive standards:

- (1) Revenues derived from the fee or charge cannot exceed the funds required to provide the property related service.
- (2) Revenues derived from the fee or charge must not be used for any purpose other than that for which the fee or charge was imposed.

(3) The amount of a fee or charge imposed upon any parcel or person as an incident of property ownership must not exceed the proportional cost of the service attributable to the parcel.

(4) No fee or charge may be imposed for a service unless that service is actually used by, or immediately available to, the owner of the property in question. Fees or charges based on potential or future use of a service are not permitted. Standby charges, whether characterized as charges or assessments, must be classified as assessments and cannot be imposed without compliance with Section 4 of Article XIID (relating to assessments).

(5) No fee or charge may be imposed for general governmental services including, but not limited to, police, fire, ambulance or library services where the service is available to the public at large in substantially the same manner as it is to property owners.

Article XIID provides that nothing in Proposition 218 shall be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development.

Further interpretation and application of Proposition 218 will ultimately be determined by the courts or through implementing legislation with respect to a number of the matters discussed above, and it is not possible at this time to predict with certainty the outcome of such determination or the nature or scope of any such legislation.

### **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 Water District's Net Revenues or ability to increase charges or connection fees.

One such initiative, recently approved by the electorate at the November 2, 2010 election, is Proposition 26. The initiative imposes a two-thirds voter approval requirement for the imposition of fees and charges by the State. It also imposes a majority voter approval requirement on local governments with respect to fees and charges for general purposes, and a two-thirds voter approval requirement with respect to fees and charges for special purposes. The initiative, according to its supporters, is intended to prevent the circumvention of tax limitations imposed by the voters pursuant to Proposition 13, approved in 1978, and other measures through the use of non-tax fees and charges. Proposition 26 expressly excludes from its scope "a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable cost to the [State/local government] of providing the service or product to the payor." The Water District believes that the fees and charges imposed are not "taxes" as defined by Proposition 26. The Agency and the Water District, however, are unable to predict at this time how Proposition 26 will be interpreted by the courts or what its ultimate impacts will be.

### **Effect of Proposition 218 and of Possible General Limitations on Enforcement Remedies**

The ability of the Water District to comply with its covenants under the Trust Agreement and to generate Net Revenues sufficient to pay the principal of and interest on the Bonds may be

adversely affected by actions and events outside of the control of the Water District and may be adversely affected by actions taken (or not taken) under Article XIIC, Article XIID, or Proposition 26 by voters, property owners, taxpayers or payers of assessments, fees and charges. Furthermore, any remedies available to the owners of the Bonds upon the occurrence of an event of default under the Trust Agreement are in many respects dependent upon judicial actions, which are often subject to discretion and delay and could prove both expensive and time consuming to obtain. In addition to the possible limitations on the ability of the Water District to comply with its covenants under the Trust Agreement, the rights and obligations under the Bonds and the Trust Agreement may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against municipal utilities in the State.

Based on the foregoing, in the event the Water District fails to comply with its covenants under the Trust Agreement, including its covenants to generate sufficient Net Revenues, as a consequence of the application of Article XIIC, Article XIID, or Proposition 26 or to pay principal of or interest on the Bonds, there can be no assurance that available remedies will be adequate to fully protect the interests of the holders of the Bonds.

## **RISK FACTORS**

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 risks.

### **General**

The payment of principal of and interest on the Bonds is secured solely by a pledge of the Revenues, consisting of mainly 2012 Installment Payments and other payments paid by the Water District and received by the Agency pursuant to the 2012 Installment Purchase Contract. The obligation of the Water District to make the 2012 Installment Payments is a limited obligation of the Water District payable solely from a Pledge of Net Revenues. The realization of the Net Revenues is subject to, among other things, the capabilities of management of the Water District, the ability of the Water District to provide water services to its users, and the ability of the Water District to establish and maintain water fees and charges sufficient to provide the required debt service coverage as well as pay for Maintenance and Operation Costs.

Among other matters, drought, general and local economic conditions and changes in law and government regulations (including initiatives and moratoriums on growth) could adversely affect the amount of Net Revenues realized by the Water District.

### **Environmental Regulation**

The kind and degree of water treatment effected through the Water System is regulated, to a large extent, by the federal government and the State. Treatment standards set forth in federal and State law control the operations of the Water System and mandate its use of technology. In the event that the federal government, acting through the Environmental Protection Agency, or the State, acting through the Department of Health Services, or additional federal or State legislation, should impose stricter water quality standards upon the Water

System, the Water District's expenses could increase accordingly and rates and charges would have to be increased to offset those expenses. It is not possible to predict the direction federal or State regulation will take with respect to drinking water quality standards, although it is likely that both will impose more stringent standards with attendant higher costs.

From a water supply perspective, environmental-related regulations and court rulings intended to protect endangered species in the Sacramento-San Joaquin River Delta (Delta) have resulted in interruptions and pumping constraints to the District's State Water Project ("SWP") supply deliveries. Additional regulation and/or court rulings that negatively impact the District's State Water Project reliability could potentially be analogous to a drought and, thus, similarly adversely affect the amount of Net Revenues realized by the Water District.

### **Earthquakes, Floods and Other Natural Disasters**

Earthquakes, floods or other natural disasters could interrupt operation of the Water District's Water System and cause increased costs and thereby interrupt the ability of the Water District to realize Net Revenues. The Water District is located in a seismically active region within the vicinity of several active and inactive faults, including the San Andreas Fault, the Hayward Fault, the Concorde-Green Valley Fault and the Calaveras Fault. The Water District could sustain extensive damage to its Water System in a major earthquake, both from ground motion and possible liquefaction of underlying soils. In October 1989, an earthquake measuring 7.1 on the Richter scale and with an epicenter approximately 50 miles south of the Water District struck the San Francisco Bay Area. There was no material structural damage to the Water District's facilities. The Water District is not obligated under the Trust Agreement to have earthquake or flood insurance. The water facilities are designed and constructed in accordance with sound engineering practice and all applicable seismic standards. To date, no such facilities have suffered any damage as a result of seismic activity. Additionally, the Water District has prepared an emergency operations plan for the operation of the major local components of the Water System in the event of a major earthquake. There can be no assurance that earthquakes or other natural disasters will not interrupt the ability of the Water System to realize Net Revenues sufficient to pay principal and interest of the Bonds.

### **System Demand**

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

### **System Expenses**

There can be no assurance that the Water District's expenses will be consistent with the descriptions in this Official Statement. Increases in expenses could require a significant increase in rates or charges in order to pay for Water District water projects and comply with the rate covenant.

### **Rate Process**

The passage of Proposition 218 by the California electorate potentially affects the Water District's ability to impose future rate increases, and no assurance can be given that future rate

increases will not encounter majority protest opposition under Proposition 218. See “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS AND CHARGES – Articles XIIC and XIID of the California Constitution.”

### **Investment of Funds**

All moneys in the Water District Revenue Fund may be invested by the Water District from time to time in any investments which are legal for investment of Water District funds under California law. All moneys in any of the funds or accounts established with the Trustee pursuant to the Trust Agreement will be invested by the Trustee solely in Permitted Investments. Obligations purchased as an investment of moneys in any fund shall be deemed to be part of such fund or account.

All interest or gain derived from the investment of amounts in any of the funds or accounts established under the Trust Agreement will be deposited in the fund or account from which such investment was made. For purposes of acquiring any investments, the Trustee may commingle funds held by it pursuant to the Trust Agreement upon the Request of the Water District. The Trustee may act as principal or agent in the acquisition of any investment. The Trustee will incur no liability for losses arising from any investments made in accordance with the Trust Agreement. See “APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.”

### **Limitations on Remedies and Bankruptcy**

The ability of the Water District to increase water services charges and to comply with its covenants under the Trust Agreement and to generate Net Revenues sufficient to pay principal of and interest on the Bonds may be adversely affected by actions and events outside of the control of the Water District and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or payers of assessments, fees and charges. See “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS AND CHARGES – Proposition 218.” Furthermore, any remedies available to the owners of the Bonds upon the occurrence of an event of default under the Trust Agreement are in many respects dependent upon judicial actions, which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

In addition to the limitations on remedies contained in the Trust Agreement, the rights and obligations under the Bonds and the Trust Agreement may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors’ rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against cities in the State. Various legal opinions to be delivered concurrently with the issuance of the Bonds will be so qualified. A complete copy of the proposed form of opinion of bond counsel is set forth in Appendix E hereto. In the event the Water District fails to comply with its covenants under the Trust Agreement or to pay principal of or interest on the Bonds, there can be no assurance that available remedies will be adequate to fully protect the interests of the holders of the Bonds.

The enforcement of the remedies provided in the Trust Agreement could prove both expensive and time consuming. In addition, the rights and remedies provided in the Trust Agreement 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 Water 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 Trust Agreement.

### **Secondary Market for Bonds**

There can be no guarantee that there will be a secondary market for the Bonds or, if a secondary market exists, that any Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then-prevailing circumstances. Such prices could be substantially different from the original purchase price.

### **Parity Obligations**

As described in "SECURITY FOR THE BONDS – Parity Obligations" above, the 2012 Installment Purchase Contract permits the Water District to execute any Installment Purchase Contract or issue any Parity Bonds, as the case may be, to finance or refinance any Project the Debt Service on which Installment Purchase Contract or Parity Bonds is payable on a parity with the payment by the Water District of the 2012 Installment Payments from the Net Revenues. In the event of a decline in Net Revenues available to pay debt service on the Bonds, the existence of Installment Purchase Contracts or additional Parity Bonds could adversely affect the Water District's ability to pay debt service on the Bonds. When and if issued, the Bonds will be secured by Net Revenues on a parity with the 2009 Bonds.

## **DISTRICT AND WATER SYSTEM INFORMATION**

### **Background**

In 1914, the Alameda County Water District became the first agency formed under the State's County Water District Law (California Water Code Sections 30000 et seq.) The Water District was formed originally to halt the exportation of water from the local groundwater basin and to conserve the water of Alameda Creek. Since its founding, the Water District has been a water conservation agency. It is responsible for the groundwater supply underlying the cities of Fremont, Newark and Union City in southern Alameda County.

Since 1930, the Water District has also been a water distribution agency. From purchase of a small distribution system in Alvarado (now a part of Union City), the Water District has expanded to serve almost all of the area covered by its conservation activities. The Water District produces, stores, treats and distributes water for a population of 328,000 people in southern Alameda County. The Water District covers approximately 100 square miles and as of June 2011 had over 81,000 customer accounts. For Fiscal Year 2010-11, average daily demand is approximately 42.7 millions of gallons per day ("mgd") and peak demand is approximately 65.0 mgd. Currently, the maximum production rates of the Water District's four water treatment

plants are: Mission San Jose Water Treatment Plant (4.0 mgd), the Water Treatment Plant Number Two (21 mgd), Newark Desalination Facility (12.5 mgd) and Blending Facility (50 mgd) (collectively, the “Treatment Facilities”).

The Water District is governed by five directors elected to four-year terms by the voters. Brief biographies of each director and principal members of the Water District staff are set forth below.

### **District Board Members**

**Mr. John H. Weed** has served since 1995. Professional/occupational history: Attorney/Property Development. Military experience as a Civil Engineer and water utility consultant with the United States Air Force on installations worldwide; retired as a Colonel with the U.S. Air Force Reserves in 2000. Previously employed as an Engineer Technician with the Santa Clara Valley Water District and Special Assistant to Division Manager of Ordinance Engineering Division, FMC Corporation. Currently serves on the Board of Directors of the Bay Area Water Supply and Conservation Agency and as an appointed member of the Alameda County Assessment Appeals Board. An active member of the California State Bar. Former member of the Board of Directors of the Association of California Water Agencies (ACWA) from 2005 to 2009 and currently a Member of the ACWA Region 5 Council. Served as an elected Trustee of the Ohlone Community College District from 1977 to 2010.

Mr. Weed has a Bachelor of Science degree in Civil Engineering from the University of Santa Clara and a Master of Business Administration degree in Finance from Eastern New Mexico University; has conducted doctoral level graduate studies in Water Resource Administration at the University of Arizona; and has a Juris Doctor from the University of Santa Clara.

**Mr. James G. Gunther** has served since 1995. Professional/occupational history: Professional Engineer. Formerly a registered Environmental Assessor and holds a Hazardous Materials Management Certificate; 12 years of experience as a U.S. Coast Guard officer/engineer; formerly a facility supervisor with an environmental cleanup and emergency response firm; currently a conductor supervisor for Amtrak; has served as an active member of the Association of California Water Agencies since 1995 and as a volunteer with the Fremont Fire Department.

Mr. Gunther has a Bachelor of Science degree in Ocean Engineering from the U.S. Coast Guard Academy.

**Ms. Judy C. Huang** has served since 2002. Professional/occupational history: Registered Professional Engineer in California; Water Resource Control Engineer from 1993 to 1997 and Associate Water Resource Control Engineer from 1997 to 2006 with the California Regional Water Quality Control Board, San Francisco Bay Region; and Environmental Engineer/Project Manager for the U.S. Environmental Protection Agency from 2006 to the present.

Ms. Huang has a Bachelor of Science degree in Chemical Engineering from the University of California, Berkeley.

**Mr. Martin L. Koller** has served since 2000. Professional/occupational history: Electrician in the U.S. Navy from 1968 to 1972; served as a quality assurance staff member at a nuclear power plant in Minnesota from 1972 to 1974; and retired after 34 years of service as a Utility Mechanic with the Union Sanitary District. Volunteer service as Post-Commander of California Veterans of Foreign Wars Post 1917; member, State Committee for POW-MIA program; past President of Fremont Jaycees; and past President of Fremont Pathfinders.

**Mr. Paul Sethy** has served since 2010. Professional/occupational history: Chairman and Chief Executive Officer; Founder of AirPrime, Inc. in 1999, a leading manufacturer of cellular modems for personal computer, smartphone, and industrial applications later acquired by Sierra Wireless, a NASDAQ listed company; at AirPrime, introduced the world's first internet-enabled smartphone which was retailed by Sprint and Verizon; 32 year veteran of Silicon Valley's high technology industry working in various management positions for corporate leaders Verbatim, Xerox, 3Com, and Hewlett-Packard, as well as for several startup companies; written numerous articles for industry trade publications and co-author of the book, *The Wireless Industry*; served as the subject of a PBS program, *The Wireless Future*, which aired on 200 television stations internationally during 2001 and 2002; current Vice-President of the Fremont Cultural Arts Council and Board member of the Washington Township Historical Society.

Mr. Sethy attended the University of California, Berkeley, School of Letters and Sciences.

#### **District Staff**

**Mr. Walter L. Wadlow, General Manager**, has served as General Manager since January 2010. Mr. Wadlow served as Operations and Maintenance Manager prior to serving as General Manager. Prior to joining the Water District, Mr. Wadlow worked for 25 years in various engineering and managerial positions for the Santa Clara Valley Water District, serving the last 11 years as Chief Operating Officer/Assistant General Manager for the water utility there. He is the past President of the State Water Project Contractors Association, and currently serves as a Board member for the California Urban Water Agencies and on the Association of California Water Agencies State Legislative Committee.

Mr. Wadlow has a Bachelor of Science degree in Civil Engineering and Master of Science degree in Water Resources Engineering from Stanford University, and is a registered professional engineer in California.

**Ms. Shelley Burgett**, Manager of Finance, joined the Water District in September 2010. Previously, Ms. Burgett served as the Treasurer/Controller and Auditor/Controller at water and electric utilities in Washington state. She has a diverse background and experience in all aspects of financial management along with rate design, customer service management, and meter reading management. She is a member of the Government Finance Officers Association and California Municipal Treasurers Association.

Ms. Burgett has a Bachelor of Science degree in Economics/Mathematics from Western Washington University and a Master of Science degree in Management from Antioch University. She is a certified public accountant licensed in Washington state.



**Mr. Robert T. Shaver, Engineering Manager**, has been with the Water District since 1991. Mr. Shaver has performed a broad range of engineering-related technical and managerial activities, mostly in the public sector, for over 25 years. As Assistant General Manager, he currently coordinates agency strategic initiatives and other programs with other District departments and outside agencies, as well as provides highly responsible and complex administrative support to the General Manager. Additionally, he directs the activities of the District's Engineering Department, which is comprised of professional and non-professional staff. His areas of responsibility include management of the District's Capital Improvement Program, as well as development services and groundwater resources-related functions.

Mr. Shaver has a Bachelor of Science degree in Civil Engineering from Virginia Polytechnic Institute & State University and a certificate in Business Administration from the University of California, Berkeley, and is a registered professional engineer in California. He is also a member of several public-service, technical and water industry organizations, including Rotary International, the American Society of Civil Engineers, the Association of California Water Agencies, California Urban Water Agencies, the American Water Works Association, and the South Bay Engineers Club.

**Altarine C. Vernon, Manager of Administrative Services**, has been with the Water District since 2006. She was the Human Resources Manager from 2006 to 2010. Prior to joining the Water District, Ms. Vernon worked for 19 years with the East Bay Municipal Utility District and held a variety of human resources positions during her tenure there. She is currently the President of the Board of Directors for the California Public Employers Labor Relations Association and a member of the Association of California Water Agencies – Insurance & Personnel Committee.

Ms. Vernon holds a Bachelor of Arts degree in Psychology and a Masters degree in Public Administration from California State University, Hayward.

**Mr. Steve Peterson, Manager of Operations and Maintenance**, has been with the Water District for 25 years and has been the manager of the Operations and Maintenance Department since 2009. Prior to that, he held multiple division level managerial positions including the Water Production Manager and the Project Engineering Manager responsible for the District's Capital Improvement Program. Before joining the District, Mr. Peterson worked 11 years for Guy F. Atkinson Construction Company from South San Francisco, California. He is a member of the American Water Works Association and the American Society of Civil Engineers.

Mr. Peterson holds a B.S. in Civil Engineering from the University of Washington and is a licensed civil engineer in the State of California.

**Mr. Michael D. Yee, Financial Services Manager**, joined the Water District in June 1993. Previously, Mr. Yee was with Pacific Gas & Electric as an Engineer Economist from 1992 to 1993. Prior to PG&E, he worked as a Project Manager at AT&T from 1991 to 1992. From 1981 to 1989, Mr. Yee was a consulting electrical engineer in both the private and public sector. He is a member of the Government Finance Officers Association, the California Municipal Treasurers Association, the California Society of Municipal Finance Officers and the National Association of Government Defined Contribution Administrators.

Mr. Yee has a Bachelor of Science degree in Electrical Engineering & Computer Sciences from the University of California, Berkeley, and a Master of Business Administration degree in Finance from California State University, Hayward. Mr. Yee is a registered professional engineer in the State of California. He has also been published in the American Water Works Association Journal.

## **District Employees**

The Water District has a staff of 224 full-time employees of which 88 are management, confidential and professional (“MCP”) employees. The Water District’s non-MCP employees are represented by one labor organization. Operating Engineers Local No. 3 of the AFL-CIO, represents 136 of the Water District’s employees in the Finance, Operations, Engineering, and Administration Services departments. Wages, benefits, and conditions of employment are covered by a memorandum of understanding with Operating Engineers Local No. 3.

## **Water Supply**

The Water District’s current water production is approximately 48,000 acre-feet per year. Water is provided from four sources: groundwater from the Niles Cone Groundwater Basin (including fresh groundwater from two well fields and desalination of brackish groundwater); surface water from the Del Valle Reservoir; water imported from the State Water Project; and water imported from the San Francisco Regional Water System. The amount of water available from these sources is variable in any given year due to hydrologic conditions and other factors. Assuming wet local conditions and full delivery of imported water supplies, these four sources provide up to a maximum of approximately 98,000 acre-feet per year.

The Water District’s contract with the State provides that in the event of a shortage in supply due to drought, the State will reduce deliveries from the State Water Project (as described below) to its contractors in proportion to their contractual amounts. See “State Water Project” below for further details.

The Water District's contract with the City and County of San Francisco (“San Francisco”) provides for a division in supply between the wholesale customers, collectively, and San Francisco, in the event of a shortage of supply in the San Francisco Regional Water System. In the event of a shortage of up to 20%, the wholesale customers will receive between 62.5% and 64.5% of the total water available, depending on the severity of the shortage. See “San Francisco Regional Water System” below for further details.

Supply agreements with both the State and San Francisco permit these suppliers to increase the unit charges for water. The cost of water purchased from the State is determined by formula based on capital and operating expenses. Water is purchased from San Francisco in accordance with a wholesale rate schedule as adjusted from time to time by the Public Utilities Commission of the City and County of San Francisco (the “SFPUC”), in accordance with cost allocation rules contained in its contract with wholesale customers, such as the Water District.

## **San Francisco Regional Water System**

The Water District has a 25-year contract, running through 2034, with San Francisco which provides up to 15,300 acre feet per year from the San Francisco Regional Water System,

which can be, and has been, reduced at San Francisco's discretion in times of drought. The supply is predominantly from the Sierra Nevada/Hetch Hetchy system but also includes treated water produced by San Francisco from its facilities in the Alameda Creek watershed. The Water District is one of 26 wholesale customers that have collectively contracted with San Francisco for about 184 mgd. This water does not require treatment by the Water District.

### **State Water Project**

The majority of the water from the SWP goes into the Water District's distribution system after treatment at the Treatment Facilities. The remainder of the Water District's State allotment goes into Alameda Creek, destined for District recharge facilities. The Water District has a contract with the State for a maximum annual amount of 42,000 acre feet ("Table A amount"). However, not all the SWP planned facilities to provide the full project reliability have been constructed by the State, so the State is left with reduced delivery capability under certain conditions.

As indicated previously, environmental-related regulations and court rulings have resulted in new Delta export pumping constraints which have further reduced the SWP delivery reliability. As such, the amount the State will be able to deliver to the Water District and its other customers in the future depends on several physical, environmental, and political factors beyond the control of the Water District.

The Water District began planning for managing its State Water Project surpluses in 1995. In an effort to increase water supply reliability by storing wet year surpluses from the Water District's allotment of State Water Project water for dry year use, in 1996 the Water District entered into a water banking agreement with the Semitropic Water Storage District. This agreement provided for 50,000 acre-feet of storage capacity at the Semitropic Groundwater Banking Program. In 2001, the Water District acquired an additional 100,000 acre-feet of additional storage capacity at the Semitropic Groundwater Banking Program by purchasing a portion of the entitlement owned by the Vidler Water Company, Inc. Under both of the Water District's agreements with Semitropic, farmers in the Semitropic Water Storage District use surplus water from the Water District's State Water Project Table A supplies in lieu of pumping from Semitropic's groundwater basin during water surplus years. During dry years, the Water District is entitled to draw water previously stored in the Semitropic water "bank." The Water District's water banking contracts run through 2035. The costs of the Water District's participation in the water banking project are accounted for in the Water District's audits under "water purchases."

### **Local Runoff**

Runoff from the Alameda Creek watershed provides the primary source of recharge to the Niles Cone Groundwater Basin. The Alameda Creek watershed is an area roughly 42 miles long and 15 miles wide, stretching from about nine miles north of Highway 580 to a line about 12 miles into Santa Clara County. The 633 square-mile watershed is populated by over 200,000 people living in five incorporated cities – Danville (partial), Dublin, Livermore, Pleasanton and San Ramon (partial) – and thousands more living in unincorporated areas.

Average rainfall in the watershed is approximately 20 inches per year. Runoff from much of the southern region is collected in the Calaveras and San Antonio reservoirs and is part of the San Francisco Regional Water System. Runoff from much of the southeastern portion is collected in Del Valle Reservoir, to which the Water District and Zone 7 Water Agency equally share water rights. Stored water from Del Valle Reservoir can be delivered through the South Bay Aqueduct.

A continuous flow record has been kept for Alameda Creek since 1892 at the stream gauging station located about 1.2 miles above Niles. Average annual flow at this station is about 89,000 acre-feet per year.

### **Environmental Compliance**

The Water System is subject to regulatory requirements imposed by State’s Department of Public Health (“DPH”). Regulations deal primarily with the quality of drinking water. To comply with mandated water quality, the Water District must operate the Water System facilities according to DHS, Domestic Water Supply Permit No. 02-04-95P-0110001, issued on September 19, 1995, and Amendment No. 5 to the permit issued on August 11, 2004. The permit has no expiration date and may be amended from time to time.

### **Water System Accounts**

Table 1 presents the number of accounts (as measured by meters installed) for the periods indicated.

**TABLE 1  
ALAMEDA COUNTY WATER DISTRICT  
Number of Metered Accounts**

<u><i>Fiscal Year</i></u> <u><i>Ending June 30</i></u>	<u><i>Number of</i></u> <u><i>Meters</i></u>
<i>2001</i>	<i>77,463</i>
<i>2002</i>	<i>77,873</i>
<i>2003</i>	<i>78,194</i>
<i>2004</i>	<i>78,402</i>
<i>2005</i>	<i>78,760</i>
<i>2006</i>	<i>79,211</i>
<i>2007</i>	<i>79,620</i>
<i>2008</i>	<i>80,326</i>
<i>2009</i>	<i>80,672</i>
<i>2010</i>	<i>81,043</i>
<i>2011</i>	<i>81,242</i>

*Source: Alameda County Water District.*

Table 2 sets forth the Water District’s largest distribution service accounts as of June 30, 2011 estimated according to annualized calendar year billings.

**TABLE 2**  
**ALAMEDA COUNTY WATER DISTRICT**  
**Largest Distribution Water Accounts (Unaudited)**  
**(in thousands)**

	<i>Fiscal Year 2011 Water Revenues (000's)</i>
<i>City of Fremont</i>	<i>\$682</i>
<i>Fremont Unified School District</i>	<i>577</i>
<i>Western Digital Technologies</i>	<i>497</i>
<i>Prologis Trust</i>	<i>413</i>
<i>City of Union City</i>	<i>339</i>
<i>School for the Deaf</i>	<i>329</i>
<i>Contempo Homeowners Association</i>	<i>322</i>
<i>Newark Unified School District</i>	<i>302</i>
<i>Solyndra Inc. *</i>	<i>284</i>
<i>Ardenwood Forest Apartments</i>	<i>273</i>

*\* The Water District does not expect that the closure of Solyndra Inc. will have a material adverse impact on the finances or operations of the Water District.  
Source: Alameda County Water District.*

### Rates and Charges

Table 3 sets forth the Water District's current bi-monthly water charge based on 23 hundred cubic feet of consumption.

**TABLE 3**  
**ALAMEDA COUNTY WATER DISTRICT**  
**Water Rates**  
**(Effective March 1, 2011)<sup>1</sup>**

<i>Bi-monthly Commodity Charge</i>	<i>\$68.40</i>
<i>Bi-monthly Service Charge</i>	<i>12.55</i>
<b><i>TOTAL</i></b>	<b><i>\$80.95</i></b>

*Source: Alameda County Water District.*

<sup>1</sup> On January 12, 2012, the Board of the Water District approved new rates that will be effective on February 1, 2012.

### Comparative Rates

Table 4 below sets forth a comparison of residential user fees for services charged by the Water District and other agencies within the Bay Area.

**TABLE 4**  
**ALAMEDA COUNTY WATER DISTRICT**  
**Bi-Monthly Residential Service Charges**  
**For the Water District and Other Bay Area Agencies**  
**September 2011 <sup>(1)(3)</sup>**

<i>Agency</i>	<i>Bi-monthly Commodity Charge <sup>(2)</sup></i>	<i>Bi-monthly Service Charge</i>	<i>Total</i>
<i>City of Burlingame</i>	<i>\$110.35</i>	<i>\$66.74</i>	<i>\$177.09</i>
<i>North Coast County Water District</i>	<i>130.75</i>	<i>27.47</i>	<i>158.22</i>
<i>California Water Services Co. – Bear Gulch</i>	<i>102.78</i>	<i>41.48</i>	<i>144.26</i>
<i>City of Palo Alto</i>	<i>123.94</i>	<i>20.00</i>	<i>143.94</i>
<i>Mid-Peninsula Water District</i>	<i>111.00</i>	<i>28.46</i>	<i>139.46</i>
<i>City of San Bruno</i>	<i>110.17</i>	<i>28.44</i>	<i>138.61</i>
<i>City of Millbrae</i>	<i>111.55</i>	<i>26.60</i>	<i>138.15</i>
<i>City of Redwood City</i>	<i>69.36</i>	<i>58.92</i>	<i>128.28</i>
<i>California Water Services Co. – Mid-Peninsula</i>	<i>92.92</i>	<i>30.48</i>	<i>123.40</i>
<i>California Water Services Co. – South SF</i>	<i>92.92</i>	<i>30.48</i>	<i>123.40</i>
<i>Contra Costa Water District</i>	<i>67.51</i>	<i>51.79</i>	<i>119.30</i>
<i>San Francisco Water Department (SFPUC)</i>	<i>99.20</i>	<i>17.20</i>	<i>116.40</i>
<i>California Water Services Co. – Los Altos</i>	<i>69.00</i>	<i>39.80</i>	<i>108.80</i>
<i>City of East Palo Alto (American Water)</i>	<i>81.19</i>	<i>23.57</i>	<i>104.76</i>
<i>City of Hayward</i>	<i>87.90</i>	<i>16.30</i>	<i>104.20</i>
<i>Marin Municipal Water District</i>	<i>81.19</i>	<i>22.46</i>	<i>103.65</i>
<i>City of Daly City</i>	<i>77.19</i>	<i>23.28</i>	<i>100.47</i>
<i>California Water Services Co. – Livermore</i>	<i>68.43</i>	<i>29.62</i>	<i>98.05</i>
<i>City of Foster City (Estero)</i>	<i>60.58</i>	<i>35.10</i>	<i>95.68</i>
<i>City of Mountain View</i>	<i>81.41</i>	<i>13.50</i>	<i>94.91</i>
<i>Dublin San Ramon Services District</i>	<i>70.05</i>	<i>24.27</i>	<i>94.32</i>
<i>City of Livermore</i>	<i>56.26</i>	<i>37.00</i>	<i>93.26</i>
<i>San Jose Water Company</i>	<i>57.86</i>	<i>33.86</i>	<i>91.72</i>
<i>North Marin Water District – Novato</i>	<i>65.89</i>	<i>20.00</i>	<i>85.89</i>
<i>East Bay Municipal Utility District</i>	<i>59.04</i>	<i>25.24</i>	<i>84.28</i>
<i>City of Sunnyvale</i>	<i>67.35</i>	<i>16.86</i>	<i>84.21</i>
<i>City of Milpitas</i>	<i>56.46</i>	<i>27.39</i>	<i>83.85</i>
<i>Alameda County Water District<sup>(3)</sup></i>	<i>68.40</i>	<i>12.55</i>	<i>80.95</i>
<i>San Jose Municipal Water</i>	<i>52.88</i>	<i>19.46</i>	<i>72.34</i>
<i>City of Santa Clara</i>	<i>68.77</i>	<i>-</i>	<i>68.77</i>
<i>City of Pleasanton</i>	<i>43.71</i>	<i>23.77</i>	<i>67.48</i>

<sup>(1)</sup> Rates shown for non-District agencies are those currently in effect as of September 2011 for 3/4" meters.

<sup>(2)</sup> Based on 23 hundred cubic feet (ccf).

<sup>(3)</sup> On January 12, 2012, the Board of the Water District approved new rates that will be effective on February 1, 2012.

Source: Alameda County Water District.

Table 5 sets forth the last ten years of annual revenues from connection and other related fees.

**TABLE 5**  
**ALAMEDA COUNTY WATER DISTRICT**  
**Connection Fees (in thousands)**

<i>Fiscal Year</i>	<i>Amount (000's)</i>
<i>2001-02</i>	<i>3,177</i>
<i>2002-03</i>	<i>1,982</i>
<i>2003-04</i>	<i>1,849</i>
<i>2004-05</i>	<i>3,864</i>
<i>2005-06</i>	<i>3,589</i>
<i>2006-07</i>	<i>3,276</i>
<i>2007-08</i>	<i>3,874</i>
<i>2008-09</i>	<i>5,703</i>
<i>2009-10</i>	<i>1,768</i>
<i>2010-11</i>	<i>1,892</i>

*Source: Alameda County Water District.*

In Fiscal Year 2010-11 water revenues were divided industrial \$5,027,374; commercial \$8,077,578; residential \$45,611,024; and miscellaneous \$3,880,024.

Table 6 and 7 set forth the Water District's audited Statements of Net Assets and Statements of Revenues, Expenses and Changes in Net Assets for the past several years,

**TABLE 6**  
**ALAMEDA COUNTY WATER DISTRICT**  
**Statements of Net Assets**  
**Fiscal Years Ending June 30**  
**(Amounts in Thousands)**

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
<b>ASSETS</b>				
Current assets:				
Cash and Investments	\$ 95,584	\$ 91,685	\$ 95,947	\$ 96,642
Customer and other accounts receivable, net	3,761	5,054	5,097	3,765
Accrued unbilled revenue	6,095	4,348	4,417	5,713
Taxes receivable	407	-	1,262	1,354
Grant receivable	85	1,120	1,795	1,320
Interest receivable	1,175	976	775	625
Materials and supplies	1,943	2,804	2,742	2,479
Prepaid items	73	92	-	26
Total unrestricted assets	<u>109,122</u>	<u>106,079</u>	<u>112,015</u>	<u>111,924</u>
Restricted cash and investments	7,882	7,915	5,388	5,378
Total current assets	<u>117,005</u>	<u>113,934</u>	<u>117,403</u>	<u>117,302</u>
Noncurrent assets:				
Polybutylene settlement receivables, long-term portion	532	274	-	-
Supplemental water supply storage	23,336	-	-	-
Debt issuance costs	785	737	681	634
Other post-employment benefits, long-term asset	-	2,408	2,045	1,943
Capital assets:				
Nondepreciable	52,465	36,254	31,295	21,990
Depreciable, net	262,064	292,331	306,484	319,860
Total capital assets	<u>314,529</u>	<u>328,585</u>	<u>337,779</u>	<u>314,850</u>
Total noncurrent assets	<u>339,181</u>	<u>332,003</u>	<u>340,505</u>	<u>344,427</u>
<b>TOTAL ASSETS</b>	<u>456,186</u>	<u>445,997</u>	<u>457,908</u>	<u>461,729</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable and accrued expenses	4,826	6,321	5,470	5,078
Accrued payroll and related liabilities	2,374	1,637	2,941	2,516
Contractor and customer deposits	6,047	1,901	2,853	3,025
Interest payable	221	214	157	154
Deferred Revenue	220	286	92	91
Long-term debt – due within one year	1,816	1,896	1,979	1,961
Total current liabilities	<u>15,503</u>	<u>12,255</u>	<u>13,492</u>	<u>12,825</u>
Long-term liabilities				
Accrued payroll and related liabilities		1,229	236	182
Long-term debt – due in more than one year	52,741	50,844	46,337	44,376
Total long-term liabilities	<u>52,741</u>	<u>52,073</u>	<u>46,573</u>	<u>44,558</u>
<b>TOTAL LIABILITIES</b>	<u>68,244</u>	<u>64,328</u>	<u>60,065</u>	<u>57,383</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	259,972	275,844	292,179	298,301
Restricted for debt service	7,662	7,701	2,515	2,436
Unrestricted	120,309	98,124	103,149	103,609
<b>TOTAL NET ASSETS</b>	<u>\$ 387,942</u>	<u>\$ 381,669</u>	<u>\$ 397,843</u>	<u>\$ 404,346</u>

Source: District Audited Financial Statements.



**TABLE 7**  
**ALAMEDA COUNTY WATER DISTRICT**  
**Statement of Revenues, Expenses and Changes in Net Assets**  
**Fiscal Years Ending June 30**  
**(Amounts in Thousands)**

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
<b>OPERATING REVENUES</b>				
Water Sales:	\$ 58,087	\$ 56,778	\$ 56,744	\$ 62,596
Facilities connection charges	3,874	5,703	1,768	1,892
Fees and rental	1,064	819	787	610
Other	1,027	757	950	949
TOTAL OPERATING REVENUES	<u>64,051</u>	<u>64,057</u>	<u>60,249</u>	<u>66,047</u>
<b>OPERATING EXPENSES:</b>				
Source of supply:				
Water purchases	14,211	14,129	14,128	14,402
Pumping	2,574	2,583	2,592	3,116
Other	6,783	9,706	7,511	8,819
Total sources of supply	<u>23,568</u>	<u>26,419</u>	<u>24,231</u>	<u>26,337</u>
Water treatment	10,097	11,022	11,297	12,464
Transmission and distribution	10,089	11,285	11,997	11,343
Administration of customer accounts	1,076	1,163	1,252	1,507
Administration and general	6,210	7,605	8,335	6,170
Depreciation and amortization	10,811	10,969	10,942	12,462
TOTAL OPERATING EXPENSES	<u>61,850</u>	<u>68,463</u>	<u>68,054</u>	<u>70,283</u>
OPERATING INCOME (LOSS)	<u>2,200</u>	<u>(4,405)</u>	<u>(7,805)</u>	<u>(4,236)</u>
<b>NONOPERATING REVENUES</b>				
<b>(EXPENSES):</b>				
Investment Income	5,344	4,032	2,448	1,416
Property taxes	6,657	7,381	7,479	7,256
LAVWMA settlement	-	-	9,464	-
Other settlements	-	-	1,470	450
Gain on disposal of plant assets	26	(67)	(75)	(69)
Interest expense	(2,923)	(2,847)	(2,298)	(1,991)
TOTAL NONOPERATING REVENUES				
(EXPENSES)	<u>9,104</u>	<u>8,498</u>	<u>18,488</u>	<u>7,062</u>
Income before capital contributions		<u>4,093</u>	<u>10,683</u>	<u>2,826</u>
Capital contributions	<u>3,988</u>	<u>6,237</u>	<u>5,491</u>	<u>3,677</u>
INCREASE IN NET ASSETS	<u>15,292</u>	<u>10,330</u>	<u>16,174</u>	<u>6,503</u>
<b>NET ASSETS</b>				
Beginning of year, as previously reported		<u>387,942</u>		
Prior period adjustment		<u>(16,603)</u>		

Beginning of year	<u>372,650</u>	<u>371,339</u>	<u>381,669</u>	<u>397,843</u>
End of year	<u>\$ 387,942</u>	<u>\$ 381,669</u>	<u>\$ 397,843</u>	<u>\$ 404,346</u>

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<sup>(1)</sup> Source: District Audited Financial Statements.

Table 8 sets forth historical and projected revenues and expenses and debt service coverage based on the annual debt service for the 2009 Bonds and the Bonds.

**TABLE 8**  
**ALAMEDA COUNTY WATER DISTRICT**  
**HISTORICAL AND PROJECTED REVENUES, OPERATING EXPENSES AND DEBT SERVICE COVERAGE**  
**Fiscal Years Ending June 30 (Unaudited) (in thousands)**

	ACTUAL					PROJECTED				
	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
<b>Revenues</b>										
Water Sales	\$ 57,285	\$ 58,087	\$ 56,778	\$ 56,744	\$ 62,596	\$ 66,188	\$ 70,157	\$ 75,757	\$ 81,801	\$ 88,329
Investment Income	4,537	5,344	4,031	2,448	1,416	1,101	1,443	1,990	1,684	1,542
Property Taxes <sup>(1)</sup>	5,820	6,657	7,381	7,479	7,256	7,140	3,000	3,000	3,000	3,000
Development Fees	3,276	3,873	5,703	1,768	1,892	2,209	2,443	2,590	2,590	2,590
Other Revenue <sup>(5)</sup>	4,021	2,090	1,576	1,738	1,559	1,423	3,927	722	722	722
<b>TOTAL REVENUES</b>	<b>\$ 74,939</b>	<b>\$ 76,051</b>	<b>\$ 75,469</b>	<b>\$ 70,177</b>	<b>\$ 74,719</b>	<b>\$ 78,060</b>	<b>\$ 80,970</b>	<b>\$ 84,059</b>	<b>\$ 89,798</b>	<b>\$ 96,183</b>
<b>Operating Expenses</b>										
Power Costs	\$ 2,666	\$ 2,574	\$ 2,583	\$ 2,592	\$ 3,116	\$ 2,836	\$ 2,960	\$ 3,049	\$ 3,140	\$ 3,235
Other Operating Expenses <sup>(2)</sup>	4,451	8,247	13,010	9,283	7,642	8,834	9,255	9,533	9,819	10,113
Labor Costs <sup>(3)</sup>	28,050	25,854	31,360	31,069	32,569	35,630	37,939	39,077	40,250	41,457
Purchased Water <sup>(4)</sup>	12,985	14,211	14,129	14,128	14,402	17,251	17,818	18,835	19,855	21,930
Aquifer Reclamation Costs	187	154	88	40	92	–	–	–	–	–
<b>TOTAL EXPENSES</b>	<b>\$ 48,339</b>	<b>\$ 51,040</b>	<b>\$ 61,170</b>	<b>\$ 57,112</b>	<b>\$ 57,821</b>	<b>\$ 64,551</b>	<b>\$ 67,972</b>	<b>\$ 70,495</b>	<b>\$ 73,064</b>	<b>\$ 76,736</b>
<b>NET REVENUES</b>	<b>\$ 26,600</b>	<b>\$ 25,011</b>	<b>\$ 14,299</b>	<b>\$ 13,065</b>	<b>\$ 16,898</b>	<b>\$ 13,509</b>	<b>\$ 12,997</b>	<b>\$ 13,565</b>	<b>\$ 16,734</b>	<b>\$ 19,447</b>
<b>Debt Service</b>										
2009 Refunding Revenue Bonds	–	–	–	2,921	2,664	2,664	2,669	2,866	2,868	2,863
2012 Water System Revenue Bonds										
<b>TOTAL DEBT SERVICE</b>										
<b>Ratio Of Net Revenues To Maximum Annual Debt Service on Revenue Certificates</b>										

Notes:  
(1) Includes the effects of the 85% State take-away of Ad-Valorem tax revenues for year 2006. This table demonstrates historical and projected debt service coverage taking into account the inclusion of property taxes collected by the District, while also taking into account expenses paid for such taxes.  
(2) Included annual inflationary increase of 3.00% beginning 2012.  
(3) Includes fringe benefits and annual inflationary increase as relevant beginning 2012. OPEB cost included beginning FY 2008/09.  
(4) Per contact schedule.  
(5) Included certain one-time grants, reimbursements of shared projects, property sales, and a mitigation payment.

Source: Alameda County Water District Finance Department. Total may not add up due to rounding.

## Pension Plan Obligations

**Plan Description.** The Water District contributes to the California Public Employee’s Retirement System (“CalPERS”), an agent multiple-employer defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State. Benefit provisions and all other requirements are established by State statute and District resolution. Copies of CalPERS’ annual financial report may be obtained from their Executive Office at 400 P Street, Sacramento, California 95814. A separate report for the Water District’s plan within CalPERS is not available.

**Funding Policy.** Active plan members are required by State statute to contribute 8% of their annual covered salary. Effective on January 1, 2009, the Water District paid 1.5% of the 8% member contributions for Management, Confidential and Professional employees which amounted to \$69,100. This employer paid member contribution percentage increased from 1.5% to 2.5% on July 1, 2009. The Water District was required to contribute for Fiscal Years 2011 and 2010 at an actuarially determined rate of 20.161% and 19.932% of annual covered payroll for the Water District’s employees, which amounted to \$4,327,000 and \$3,751,000 for the years ended June 30, 2011 and 2010.

**Annual Pension Cost.** For Fiscal Year 2011, the Water District’s annual pension cost of \$4,327,000 for CalPERS was equal to the Water District’s required and actual contributions. The required contribution was determined as part of the June 30, 2008 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases ranging from 3.25% to 14.45% and (c) 3.25% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.0%. The actuarial value of CalPERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a fifteen-year period. CalPERS unfunded actuarial accrued liability (or surplus) is being amortized as a level percentage of projected payroll on a closed basis. The average amortization period for current service unfunded liability at June 30, 2009 was 30 years.

Fiscal Year Ended (June 30)	Annual Pension Cost (APC) (Dollars in Thousands)	Percentage of APC Contributed	Net Pension Obligation
2009	\$3,481	100%	–
2010	3,751	100	–
2011	4,327	100	–

**Funding Status as of the Most Recent Actuarial Date.** The table below represents the Water District’s funding status as reported by CalPERS (Dollars in thousands).

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Liability (UAAL)/ Excess Assets	Funded Ratio	Annual Covered Payroll	(UAAL)/ Excess Assets As Percentage of Covered Payroll
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6/30/2009            \$153,918            \$117,007            (\$36,911)    (76.0%)            \$18,646            (198.0%)

Actuarial valuations for June 30, 2011 and 2010 are not available.

***Internal Revenue Code Section 401(a) Plan.*** Effective January 1, 1997, the Water District established and administered the Water District 401(a) Plan (the “401(a) Plan”), a defined contribution plan. The 401(a) Plan provides tax-deferred retirement benefits to District employees. The employees vest upon joining the 401(a) Plan. The Water District has agreed to contribute to the employee’s accounts, up to a specified amount, to match the employees’ contributions to the Water District’s 457(b) Plan, an eligible deferred compensation plan. The Water District contributed \$59,000 and \$57,000 to the 401(a) Plan in Fiscal Years 2011 and 20108, respectively, as required under the Water District’s Management, Confidential and Professional (“MCP”) employee compensation schedule. Effective January 1, 2004, the Water District’s matching calendar year contribution to the 401(a) Plan for non-MCP employees was discontinued, in accordance with the Memorandum of Understanding for United Public Employees Local 1021, then in effect.

### **Other Post-Employment Benefits**

***Retiree Health Insurance.*** The Water District provides health plan coverage under the CalPERS Health Benefits Program (“PEMHCA”) for eligible retirees and eligible dependents, or surviving spouse or registered domestic partner. To fund this coverage, the Water District contributes the minimum required amounts under the PEMHCA rules as determined by CalPERS on an annual basis.

Longevity Payments for Employees Hired Before August 1, 2002. The Water District shall make a longevity payment on a monthly basis into a Retiree Health Care Trust (the “Retiree HRA Trust”) for employees hired before August 1, 2002, who retire from the Water District and receive District-provided retiree coverage under PEMHCA. The Water District’s longevity payment into a retiree’s Retiree HRA Trust shall be equal to: the difference between the minimum employer contribution (the “MEC”) under PEMHCA and the greater of: the full cost of enrollment of the retiree and his/her family members (if applicable) in the highest cost HMO medical plan with a traditional network or PERS Choice plan offered under PEMHCA (“PPO Plan”) in the Bay Area/Sacramento Region. If the retiree and/or surviving spouse or registered domestic partner are age 65 and/or entitled to Medicare, the Water District’s longevity payment shall be equal to the greater of: the difference between the MEC and the full cost of enrollment, of the retiree and eligible dependents, or the surviving spouse or surviving registered domestic partner in the highest cost Medicare HMO medical plan with a traditional network (“Medicare HMO”) or PPO Plan.

The Water District’s longevity payment into a retiree’s Retiree HRA Trust Account shall remain unchanged for the duration of the retiree’s life and that of their eligible surviving spouse or surviving registered domestic partner. The Water District shall cease to make contributions into a retiree’s Retiree HRA Trust Account upon the retiree’s death if the retiree does not have a surviving spouse or registered domestic partner, or upon the surviving spouse or registered domestic partner’s death if these should succeed the retiree.

Longevity Payment for Employees Hired On or After August 1, 2002. The Water District shall make a longevity payment on a monthly basis into the Retiree HRA Trust for employees hired on or after August 1, 2002, who retire from the Water District and receive District-provided retiree coverage under PEMHCA. The Water District's longevity payment for these employees shall be based on the employee's completed years of credited service with the Water District and CalPERS as described below.

The Water District's longevity payment shall be a percentage of the premium cost of coverage calculated based on the years of service of an employee with the Water District and CalPERS. The premium cost shall either be equal to the MEC or to: the difference between the MEC and the full cost of enrollment of the retiree and his/her family members (if applicable), or surviving spouse or registered domestic partner in the greater of: the highest cost HMO medical plan with a traditional network or the PPO Plan in the Bay Area/Sacramento Region. If the retiree and/or surviving spouse or registered domestic partner are age 65 and/or entitled to Medicare, the Water District's longevity payment shall be based on the years of service of the employee with the Water District and CalPERS. The premium cost shall either be equal to the MEC or to the difference between the MEC and the greater of: the full cost of enrollment of the retiree and eligible dependents, or the surviving spouse or surviving registered domestic partner in the Medicare HMO or PPO Plan.

For the purpose of determining the Water District's longevity payment towards a retiree's Retiree HRA Trust account; years of credited service shall mean: a minimum of ten years of service with a California PERS participating agency, and a minimum of five years of service, of the ten years of service must be performed exclusively for the Water District.

<u>Credited Years of Service</u>	<u>District Longevity Payment (Percentage of Premium Cost)</u>
1-9	MEC
10	50 %
11	55
12	60
13	65
14	70
15	75
16	80
17	85
18	90
19	95
20+	100

Employees who retire for disability are considered fully vested annuitants entitled to the full employer health benefit contribution equivalent to 100% of the greater of the cost of coverage under the highest cost HMO medical plan with a traditional network or PERS Choice plan in the Bay Area/Sacramento Region, or Medicare HMO or PPO Plan (when applicable) offered by PEMHCA.

The Water District's longevity payment into a retiree's Retiree HRA Trust Account shall remain unchanged for the duration of the retiree's life and that of their eligible surviving spouse or surviving state registered domestic partner and/or qualified dependent children as determined by PEMHCA. The Water District shall cease to make contributions into a retiree's Retiree HRA Trust Account upon the retiree's death if the retiree does not have a surviving spouse or state registered domestic partner, or upon the surviving spouse or state registered domestic partner's death if these should succeed the retiree.

Longevity Payment for Employees hired on or after January 1, 2009. The Water District shall make a longevity payment on a monthly basis into the Retiree HRA Trust for employees hired on or after January 1, 2009, who retire from the Water District and receive District-provided retiree coverage under PEMHCA. The Water District's longevity payment for employees hired on or after January 1, 2009, who retire from the Water District, shall be based on the employee's completed years of credited service with the Water District as described below.

The Water District's longevity payment shall be a percentage of the premium cost of coverage calculated based exclusively on the years of service of an employee with the Water District. The premium cost shall either be equal to the MEC or to the difference between the MEC and the lesser of: the full cost of enrollment of the retiree and his/her spouse/state registered domestic partner or child (if applicable), or surviving spouse or state registered domestic partner in the lowest cost HMO medical plan with a traditional network or PERS Choice Plan in the Bay Area/Sacramento Region. If the retiree and/or surviving spouse or state registered domestic partner are age 65 and/or entitled to Medicare, the premium cost shall either be equal to the MEC or to the difference between the MEC and the lesser of: the full cost of enrollment of the retiree and eligible spouse/state registered domestic partner or child or the surviving spouse or surviving state registered domestic partner in the lowest cost Medicare HMO or PPO Plan offered by the CalPERS Health Benefit Program.

For the purpose of determining the Water District's longevity payment towards a retiree's Retiree HRA Trust account, years of credited service shall mean the employee's years of service with the Water District, as follows:

<u>Credited Years of Service with the District</u>	<u>District Longevity Payment (Percentage of Premium Cost)</u>
0-9	MEC
10-14	25 %
15-19	50 %
20-24	75 %
25+	100 %

Employees who retire for disability are considered fully vested annuitants entitled to the full employer health benefit contribution equivalent to 100% of the lesser of the cost of coverage under the lowest cost HMO medical plan with a traditional network or PERS Choice Plan in the Bay Area/Sacramento Region, or the lowest cost Medicare HMO or PPO Plan (when applicable) offered by the CalPERS Health Benefit Program.

**Retiree Dental and Vision Insurance.** Retired MCP employees and their eligible dependents will be provided with dental insurance and vision care insurance. Employees hired on or after August 1, 2002, must have 15 years of service with the Water District and be minimum age 50 at retirement in order to receive this retiree dental and vision benefit.

Retired union employees hired after April 1, 1984, must have at least ten years of service with the Water District and be minimum age 50 at retirement in order to receive this retiree dental and vision benefit. Union employees hired after April 1, 1988, must have 15 years of service with the Water District and be minimum age 50 at retirement in order to receive this retiree dental and vision benefit.

Employees hired on or after January 1, 2009, shall not be eligible to participate in the Water District's retiree vision or dental plan upon their retirement from the Water District.

**Retiree Life Insurance.** Upon retirement, at whatever age, the then current Group Life Insurance Plan will be reduced to a flat \$4,000 benefit for MCP retirees and \$2,000 for union retirees. The benefit will not terminate until the claim is incurred. The Water District will pay the full cost of the Retiree Life Insurance. Employees hired on or after April 1, 2009, shall not be eligible for retiree life insurance.

**Survivor Benefits.** The Water District provides health care benefits as described above for the surviving spouse and eligible dependents of a retiree so long as they meet the eligibility requirements. A total of 163 and 162 retirees participated in the plan as of June 30, 2011 and 2010, respectively.

**General OPEB Costs.** The cost of post-employment health care and life benefits is recognized as claims are paid. For the years ended June 30, 2011 and 2010, expenses of approximately \$1,672,200 and \$1,397,000, respectively, were recognized for post-employment health care and life insurance benefits.

**Funding of Other Post-Employment Benefit Obligations.** Governmental Accounting Standards Board Statement No. 45 ("GASB 45") is effective for the Water District's fiscal year ending June 30, 2009. It requires that non-pension, post-employment benefits for retirees, such as post-retirement health care benefits, be shown as an accrued actuarial liability in the audit, similar to the current treatment of pension benefits. GASB 45 requires only the identification and disclosure of the Water District's unfunded accrued actuarial liability ("UAAL") and funding status; it does not require the Water District or any other affected public agency to fully fund such liability. The Water District has undertaken actuarial studies to estimate its other post-employment benefit obligations ("OPEB Obligations") since June 30, 2007, and received a new study in December, 2011. The December 2011 study was updated for new assumptions, changes in discount rates and health benefits, indicated that the Water District has an UAAL of approximately \$35.9 million. In March 2009, the Water District adopted a self-administered OPEB Trust Account to fund its OPEB Obligations. In June 2011, the balance of the Water District's OPEB Trust Account was \$5,639,400. For Fiscal Year 2011-12, the District expects to pay the full annual required contribution ("ARC") amount of \$1,016,660; which is \$2,856,000; less the current OPEB health care and life benefits amount of \$1,839,400. The Water District intends to annually fund the full ARC to minimize its OPEB Obligation costs which precludes the recognition of any liability on the Water District's financial statements as provided under GASB 45. The Water District has also taken steps to further reduce its overall OPEB Obligations



in the future. Employees hired after January 1, 2009 will receive credit for other post-employment benefits based on a different formula for years of service and a lower premium contribution benchmark. In addition, the Water District intends to transfer its accumulated OPEB assets into a third party retiree benefit trust account with higher earning potential within the next few months.

## **TAX MATTERS**

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

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

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

Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances. The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The Agency and the Water District have made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

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

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. As one example, the Obama Administration recently announced a legislative proposal which, for tax years beginning on or after January 1, 2013, generally would limit the exclusion from gross income of interest on obligations like the Bonds to some extent for taxpayers who are individuals and whose income is subject to higher marginal income tax rates. Other proposals have been made that could significantly reduce the benefit of, or otherwise affect, the exclusion from gross income of interest on obligations like the Bonds. The introduction or enactment of any such legislative proposals, clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, and regarding the impact of future legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Agency or the Water District, or

about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Agency and the Water District have covenanted, however, to comply with the requirements of the Code.

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

### **CERTAIN LEGAL MATTERS**

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Agency. A complete copy of the proposed form of Bond Counsel opinion is contained in Appendix E hereto. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of the Official Statement. Certain legal matters will be passed upon for the Water District by Hanson Bridgett LLP. Payment of the fees and expenses of Bond Counsel is contingent upon issuance of the Bonds.

### **LITIGATION**

To the best knowledge of the Agency and the Water District, there is no action, suit, proceeding or investigation at law or in equity before or by any court or governmental agency or body pending or threatened against the Agency to restrain or enjoin the authorization, execution or delivery of the Bonds, the pledge of the Revenues or the collection of the payments to be made pursuant to the Trust Agreement, the obligation of the Water District to pay 2012 Installment Payments from the Net Revenues made pursuant to the 2012 Installment Purchase Contract, or in any way contesting or affecting the validity of the Bonds, the Trust Agreement, the 2012 Installment Purchase Contract, the Escrow Agreement or the agreement for the sale of the Bonds.

### **FINANCIAL ADVISOR**

Stone & Youngberg, a Division of Stifel Nicolaus, San Francisco, California, has served as Financial Advisor to the Agency with respect to the sale of the Bonds. The Financial Advisor has assisted the Agency in the review of this Official Statement and in other matters relating to the planning, structuring, execution and delivery of the Bonds. The Financial Advisor has not independently verified any of the data contained herein or conducted a detailed investigation of

the affairs of the Agency to determine the accuracy or completeness of this Official Statement. Due to their limited participation, the Financial Advisor assumes no responsibility for the accuracy or completeness of any of the information contained herein.

The Financial Advisor will receive compensation from the Agency contingent upon the sale and delivery of the Bonds.

### **RATINGS**

Moody's Investors Service ("Moody's") and Standard & Poor's, a Division of the McGraw-Hill Companies ("S&P"), have assigned their municipal bond rating of "Aa2" and "AAA", respectively, to the Bonds.

The ratings issued reflect only the view of such rating agencies, and any explanation of the significance of such ratings should be obtained from such rating agencies. There is no assurance that such ratings will be retained for any given period of time or that they will not be revised downward or withdrawn entirely by such rating agencies if, in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of any ratings obtained may have an adverse effect on the market price of the Bonds.

### **SALE OF THE BONDS**

The Bonds were sold at competitive bid on January \_\_, 2012. The Bonds were awarded to \_\_\_\_\_ (the "Purchaser"), who submitted the lowest true interest cost bid, at a purchase price of \$\_\_\_\_\_. Under the terms of its bid, the Purchaser will be obligated to purchase all of the Bonds if any are purchased, the obligation to make such purchase being subject to the approval of certain legal matters by Bond Counsel, and certain other conditions to be satisfied by the Agency.

The Purchaser has certified the reoffering prices or yields for the Bonds set forth on the cover of this Official Statement, and the Agency nor the District takes no responsibility for the accuracy of those prices or yields. Based on the reoffering prices, the net original issue premium on the reoffering of the Bonds is \$\_\_\_\_\_, and the Purchaser's gross compensation (or "spread") is \$\_\_\_\_\_. The Purchaser may offer and sell Bonds to certain dealers and others at prices lower than the offering prices stated on the cover. The offering prices may be changed from time to time by the Purchaser.

### **VERIFICATION OF MATHEMATICAL ACCURACY**

Causey, Demgen & Moore Inc., upon issuance of the Bonds, will deliver a report on the mathematical accuracy of certain computations, contained in schedules provided to them which were prepared by the Water District, relating to the sufficiency of the anticipated receipts from the Escrow Securities to pay, when due, the principal, whether at maturity or upon prior prepayment, interest and prepayment premium requirements with respect to the 2003 Certificates.

The report of Causey, Demgen & Moore Inc. will include the statement that the scope of its engagement is limited to verifying the mathematical accuracy of the computations contained

in such schedules provided to it, and that it has no obligation to update its report because of events occurring, or data or information coming to its attention, subsequent to the date of its report.

**MISCELLANEOUS**

So far as any statements made in this Official Statement involve matters of opinion, assumptions, projections, anticipated events or estimates, whether or not expressly stated, they are set forth as such and not as representations of fact, and actual results may differ substantially from those set forth herein. Neither this Official Statement nor any statement which may have been made verbally or in writing is to be construed as a contract with the owners of the Bonds.

The summaries of certain provisions of the Bonds, statutes and other documents or agreements referred to in this Official Statement do not purport to be complete, and reference is made to each of them for a complete statement of their provisions. Copies are available for review by making requests to the Water District.

The Appendices are an integral part of this Official Statement and must be read together with all other parts of this Official Statement. The audited financial statements of the Water District, including a summary of significant accounting policies, for the fiscal year ended June 30, 2011 are contained in Appendix B.

The execution of this Official Statement and its delivery have been authorized by the Board of Directors of the Agency and the Water District.

**ALAMEDA COUNTY WATER DISTRICT  
FINANCING AUTHORITY**

By \_\_\_\_\_  
**President**

**ALAMEDA COUNTY WATER DISTRICT**

By \_\_\_\_\_  
**General Manager**

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## APPENDIX A

### SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

#### CERTAIN DEFINITIONS

The following are definitions of certain terms as used in this Official Statement.

“Act” means the Joint Exercise of Powers Act (being Chapter 5 of Division 7 of Title 1 of the California Government Code, as amended) and all laws amendatory thereof or supplemental thereto.

“2012 Acquisition Fund” means the fund by that name established pursuant to 2012 Installment Purchase Contract.

“Agency” means the Alameda County Water District Financing Authority created pursuant to the Act and its successors and assigns in accordance with the Trust Agreement.

“Approving Opinion” means an opinion of Bond Counsel addressed to the Trustee and the Agency, that an action being taken (i) is authorized by the Act and the Trust Agreement, and (ii) will not, in and of itself, adversely affect the tax exempt status of the Bonds.

“Board of Directors” means the Board of Directors of the Water District.

“Bond Counsel” means a firm of recognized standing in the field of obligations, the interest on which is excluded from gross income for purposes of federal income taxation.

“Bonds” means all water revenue bonds (including the Alameda County Water District 2009 Water System Refunding Revenue Bonds) of the Water District authorized, executed, issued and delivered by the Water District under and pursuant to the Law, the payments of which are on a parity with each other and with the payment of the Installment Payments and which are secured by a pledge of and lien on the Net Revenues.

“2012 Bonds” means the “Alameda County Water District Financing Authority Water System Revenue Bonds, Series 2012”.

“Business Day” means any day other than a Saturday or Sunday or day upon which the Trustee is open for business at its Principal Office.

“Certificate of the Agency” means an instrument in writing signed by or on behalf of the Agency by its President, Vice President or Treasurer, or by any other officer of the Agency duly authorized by the governing board of the Agency to sign documents on its behalf under the Trust Agreement.

“Certificates” means Alameda County Water District Revenue Certificates of Participation (2003 Water System Project) authorized by the 2003 Trust Agreement and at any time outstanding thereunder that are executed and delivered by the 2003 Trustee thereunder.

“Code” means the Internal Revenue Code of 1986, as amended, or any successor statute thereto, and any regulations promulgated thereunder.

“Continuing Disclosure Certificate” means that certain Continuing Disclosure Certificate executed as of February 1, 2012, by the Water District, as originally executed and entered into and as it may from time to time be amended in accordance with its terms.

“2003 Corporation” means the Alameda County Water District Public Facilities Financing Corporation, a nonprofit public benefit corporation duly organized and existing under the laws of the State of California.



“Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the Agency or the Water District and related to the authorization, execution and delivery of the Escrow Agreement, the Continuing Disclosure Certificate, the 2012 Installment Purchase Contract and the Trust Agreement and the related sale of the Bonds, including, but not limited to, costs of preparation and reproduction of documents, costs of rating agencies and costs to provide information required by rating agencies, filing fees, initial fees and charges of the Trustee, legal fees and charges, fees and expenses of consultants and professionals, fees and expenses of the financial advisor, fees and charges for preparation, execution and safekeeping of the Bonds and any other charge, cost or fee in connection with the original issuances, sale and delivery of the Bonds.

“2012 Costs of Issuance Fund” means the fund by that name established pursuant to the Trust Agreement.

“DTC” means The Depository Trust Company, New York, New York, or any successor thereto.

“Debt Service” means, for any designated period, the sum of (1) the interest accruing during such period on all outstanding Bonds, assuming that all outstanding serial Bonds are retired as scheduled and that all outstanding term Bonds are redeemed or paid from sinking fund payments as scheduled (except to the extent that such interest is to be paid from the proceeds of sale of any Bonds), (2) that portion of the principal amount of all outstanding serial Bonds maturing on the next succeeding principal payment date that would have accrued during such period if such principal amount were deemed to accrue daily in equal amounts from the next preceding principal payment date or during the year preceding the first principal payment date, as the case may be, (3) that portion of the principal amount of all outstanding term Bonds required to be redeemed or paid on the next succeeding redemption date (together with the redemption premiums, if any, thereon) that would have accrued during such period if such principal amount (and redemption premiums) were deemed to accrue daily in equal amounts from the next preceding redemption date or during the year preceding the first redemption date, as the case may be, and (4) that portion of the Installment Payments required to be made at the times provided in the Installment Purchase Contracts that would have accrued during such period if such Installment Payments were deemed to accrue daily in equal amounts from, in each case, the next preceding installment payment date of interest or principal or the date of the pertinent Installment Purchase Contract, as the case may be.

“Escrow Agreement” means that certain Escrow Agreement executed and entered into as of February 1, 2012, by and between the Water District and the 2003 Trustee, as trustee and escrow agent, as originally executed and entered into and as it may from time to time be amended in accordance with its terms.

“Event of Default” means an event described in the Installment Purchase Contract.

“Federal Securities” means United States of America Treasury bills, notes, bonds or certificates of indebtedness, or obligations for which the full faith and credit of the United States of America are pledged for the payment of interest and principal, or securities evidencing ownership interests in such obligations or in specified portions of the interest on or principal of such obligations.

“Fiscal Year” means the twelve-month period terminating on June 30 of each year, or any other annual accounting period hereafter selected and designated by the Water District as its Fiscal Year in accordance with applicable law.

“Generally Accepted Accounting Principles” means the uniform accounting and reporting procedures set forth in publications of the American Institute of Certified Public Accountants or its successor and the National Council on Governmental Accounting or its successor, or by any other generally accepted authority on such procedures, and includes, as applicable, the standards set forth by the Financial Accounting Standards Board or its successor.

“Holder” means any person who shall be the registered owner of any Outstanding Bond.

“Independent Certified Public Accountant” means any certified public accountant or firm of such accountants duly licensed and entitled to practice and practicing as such under the laws of the State or a comparable successor, appointed and paid by the Agency, and who, or each of whom --

- (1) is in fact independent and not under the domination of the Agency;
  - (2) does not have a substantial financial interest, direct or indirect, in the operations of the Agency;
- and
- (3) is not connected with the Agency as a member, officer or employee of the Agency, but who may be regularly retained to audit the accounting records of and make reports thereon to the Agency.

“Independent Engineer” means any firm of civil engineers of national reputation generally recognized to be well qualified in engineering matters relating to municipal water systems duly licensed and entitled to practice and practicing as such under the laws of the State of California, appointed and paid by the Water District, and each of whom --

- (1) is in fact independent and not under the domination of the Water District;
- (2) does not have a substantial financial interest, direct or indirect, in the operations of the Water District; and
- (3) is not connected with the District as a member of the Board of Directors or an officer or employee of the Water District, but may be regularly retained to make reports to the Water District.

“Information Services” means Financial Information, Inc., Daily Called Bond Service, 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Mergent/FIS, Inc., 5250 77 Center Drive, Suite 150, Charlotte, NC 28217, Attn: Called Bond Department; and Standard & Poor’s J.J. Kenny Drake, Inc., 55 Water Street, New York, NY 10041-0001, Attention: Notification Department; and, in accordance with then current guidelines of the Securities and Exchange Commission, any other information services providing information with respect to called bonds that the Agency may designate in a Certificate of the Agency delivered to the Trustee.

“2012 Installment Payment Date” means any date on which 2012 Installment Payments are scheduled to be paid by the Water District under and pursuant to the Installment Purchase Contract.

“Installment Payments” means the installment payments of interest and principal scheduled to be paid by the Water District under and pursuant to the Installment Purchase Contracts.

“2012 Installment Payments” means the Installment Payments scheduled to be paid by the Water District under and pursuant to the Installment Purchase Contract.

“Installment Purchase Contracts” means all installment purchase contracts of the Water District authorized and executed by the Water District under and pursuant to the Law, the Installment Payments under which are payable on a parity with the payment of the Bonds and which are secured by a pledge of and lien on the Net Revenues.

“2012 Installment Purchase Contract” means that certain 2012 Installment Purchase Contract executed and entered into as of February 1, 2012, by and between the Agency and the Water District, as originally executed and entered into and as it may from time to time be amended in accordance with the Trust Agreement and therewith.

“Interest Payment Date” means a date on which an interest installment of the 2012 Installment Payments is due and payable, being June 1 and December 1 of each year to which reference is made, commencing on June 1, 2012.

“Joint Powers Agreement” means the Joint Exercise of Powers Agreement by and between the Water District and the Union Sanitary District, dated November 14, 2011, as originally executed and as it may from time to time be amended or supplemented pursuant to the provisions of the Trust Agreement and thereof.

“Law” means the County Water District Law of the State of California (constituting Sections 30000 et seq. of the Water Code of the State of California) and all laws amendatory thereof or supplemental thereto, including 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.

“Maintenance and Operation Costs” means the reasonable and necessary costs paid or incurred by the Water District for maintaining and operating the Water System, determined in accordance with Generally Accepted Accounting Principles, including all costs of water purchased for the Water System (except those costs paid from taxes), and including all reasonable expenses of management and repair and all other expenses necessary to maintain and preserve the Water System in good repair and working order, and including all administrative costs of the Water District that are charged directly or apportioned to the operation of the Water System, such as salaries and wages of employees, overhead, taxes (if any) and insurance premiums, and including all other reasonable and necessary costs of the Water District or charges required to be paid by it to comply with the terms of the Installment Purchase Contract and of any resolution authorizing the execution of any Installment Purchase Contract or of such Installment Purchase Contract or of any resolution or indenture authorizing the issuance of any Bonds or of such Bonds, such as compensation, reimbursement and indemnification of the trustee, seller or lessor for any such Installment Purchase Contracts or Bonds and fees and expenses of Independent Certified Public Accountants and Independent Engineers, but excluding in all cases depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles.

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

“Net Revenues” means, for any designated period, the Revenues during such period, less the Maintenance and Operation Costs during such period.

“Opinion of Counsel” means a written opinion of counsel of recognized national standing in the field of law relating to municipal bonds, appointed and paid by the Agency.

“Outstanding,” when used as of any particular time with reference to Bonds, means (subject to the provisions of the Trust Agreement all Bonds 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 discharge of Bonds; and
- (3) Bonds in lieu of or in substitution for which other Bonds shall have been executed, issued and delivered by the Agency pursuant to the Trust Agreement.

“Permitted Investments” means any of the following to the extent then permitted by law:

- (1) Federal Securities;
- (2) Obligations issued by banks for cooperatives, federal land banks, federal intermediate credit banks, federal home loan banks, the Federal Home Loan Bank Board or the Tennessee Valley Authority, or obligations, participations or other instruments of or issued by, or fully guaranteed as to interest and principal by, the Federal National Mortgage Association, or guaranteed portions of Small Business Administration notes, or obligations, participations or other instruments of or issued by a federal agency or a United States of America government-sponsored enterprise;
- (3) Any obligations which are then legal investments for moneys of the Water District under the laws of the State of California; provided, that if such investments are not required to be collateralized or insured, such investments shall be issued by entities the debt securities of which are rated in one of the two highest short-term or long-term rating categories by Moody’s Investors Service and by Standard & Poor’s, a division of The McGraw-Hill Companies, Inc.; and provided further, that any repurchase agreements must be fully secured by collateral security

described in clauses (i) and (ii) of this definition, which collateral (A) is held by the Water District, the Trustee or a third party agent during the term of such repurchase agreement and in which collateral the Water District or the Trustee, as applicable, has a perfected first security interest, (B) has a market value determined at least every thirty (30) days at least equal to one hundred ten per cent (110%) of the amount so invested, and (C) may be liquidated within seven (7) days if the market value of such collateral is at any time less than the amount so invested;

(4) Investment contracts with entities the debt securities of which are rated in one of the two highest long-term rating categories by Moody's Investors Service and by Standard & Poor's, a division of The McGraw-Hill Companies, Inc;

(5) Units of a money-market fund portfolio rated in one of the two highest rating categories by Moody's Investors Service or by Standard and Poor's, including funds for which the Trustee or its affiliates provide investment advisory or other management services, and, with respect to investments of less than one hundred thousand dollars (\$100,000), time or demand deposits which are maintained by a banking department of the Trustee or its affiliates so long as the Trustee or its parent has a combined capital and surplus of at least fifty million dollars (\$50,000,000);

(6) Tax-exempt obligations of a state or a political subdivision thereof which are rated in one of the two highest short-term or long-term rating categories by Moody's Investors Service and by Standard & Poor's, a division of The McGraw-Hill Companies, Inc.; and

(7) Tax-exempt obligations of a state or a political subdivision thereof which have been defeased under irrevocable escrow instructions with Federal Securities and which are rated in the highest rating category by Moody's Investors Service and by Standard & Poor's, a division of The McGraw-Hill Companies, Inc.

"Principal Office" means the designated corporate trust office of the Trustee, located in Los Angeles, California; provided, however, for transfer, registration, exchange, payment and surrender of Bonds, "Principal Office" means care of the corporate trust operations office of U.S. Bank National Association in St. Paul, Minnesota, or such other office designated by the Trustee from time to time. "Principal Payment Date" means a date on which a principal installment of the 2012 Installment Payments is due and payable.

"Project" means any additions, betterments, extensions or improvements to the Water System designated by the Board of Directors as a designated Project, the financing or refinancing of which is to be paid for by the proceeds of any Installment Purchase Contracts or Bonds.

"Purchase Price" means the principal amount plus the interest thereon owed by the Water District to the Agency under the conditions and terms of the Installment Purchase Contract.

"Rebate Fund" shall have the meaning given in the Tax Certificate.

"Record Date" means with respect to an Interest Payment Date, the fifteenth calendar day of the month immediately preceding such Interest Payment Date.

"Representation Letter" means the blanket letter of representations of the Agency to The Depository Trust Company, New York, New York.

"Reserved Rights" means the rights of the Agency under the 2012 Installment Purchase Contract with respect to reimbursement of costs and indemnification.

"Revenue Fund" means the fund by that name established pursuant to the Trust Agreement.

"Revenues" means all gross income and revenue received or receivable by the Water District from the ownership or operation of the Water System, determined in accordance with Generally Accepted Accounting Principles, including all rates, charges and connection fees received by the Water District for water and the other services of the Water System and all proceeds of insurance covering business interruption loss relating to the Water

System and all other income and revenue howsoever derived by the Water District from the ownership or operation of the Water System, but excluding all proceeds of taxes and all refundable deposits made to establish credit and advances or contributions in aid of construction.

“Securities Depositories” means: The Depository Trust Company, 55 Water Street, 50th Floor, New York, N.Y. 10041-0099 Attn. Call Notification Department, Fax (212) 855-7232, or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories, or no such depositories, as designated by the Agency to the Trustee.

“State” means the State of California.

“Supplemental Trust Agreement” means any trust agreement then in full force and effect which has been duly executed and delivered by the Agency and the Trustee amendatory of the Trust Agreement or supplemental thereto, but only if and to the extent that such Supplemental Trust Agreement is specifically authorized under the Trust Agreement.

“Tax Certificate” means the Tax Certificate delivered by the Water District and the Agency at the time of the issuance and delivery of the Bonds, as the same may be amended or supplemented in accordance with its terms.

“Trust Agreement” means that certain Trust Agreement, executed and entered into as of February 1, 2012, by and between the Trustee and the Agency, as originally executed and as it may from time to time be amended or supplemented in accordance with its terms.

“2003 Trust Agreement” means the Trust Agreement executed and entered into as of November 1, 2003, by and among the 2003 Trustee, the 2003 Corporation and the Water District relating to the 2003 Certificates, as originally executed and entered into and as it may from time to time be amended or supplemented in accordance therewith.

“Trustee” means U.S. Bank National Association, acting in its capacity as trustee under and pursuant to the Trust Agreement, and its successors and assigns as provided in the Trust Agreement.

“2003 Trustee” means U.S. Bank National Association, as trustee under the 2003 Trust Agreement.

“Water District” means the Alameda County Water District, a county water district duly organized and existing under and by virtue of the laws of the State.

“Water District Revenue Fund” means the Alameda County Water District Water Revenue Fund now existing in the treasury of the Water District.

“2003 Water Project” means the design, engineering, permitting and construction of such portions as the Water District shall designate of the additions, betterments, extensions and improvements to the Water System listed on Exhibit A of the 2012 Installment Purchase Contract.

“2012 Water Projects” means the design, engineering, permitting and construction of such portions as the Water District shall designate of the additions, betterments, extensions and improvements to the Water System listed on Exhibit A of the Installment Purchase Contract, in each case as more particularly described in Water District’s Adopted Capital Improvement Program, with such additions, substitutions and deletions as shall be specified in a Certificate of the Water District stating that such additions, substitutions or deletions constitute improvements to the Water System.

“Water System” means all facilities for the pumping, storage, transmission and treatment of water now owned by the Water District and all other properties, structures or works hereafter acquired and constructed by the Water District and determined to be a part of the Water System, together with all additions, betterments, extensions or improvements to such facilities, properties, structures or works or any part thereof hereafter acquired and constructed.

“Written Request of the Agency” means an instrument in writing signed by or on behalf of the Agency by its President, Vice President or Treasurer, or by any other officer of the Agency duly authorized by the governing board of the Agency to sign documents on its behalf under the Trust Agreement.

SUMMARY OF CERTAIN PROVISIONS OF THE 2012  
INSTALLMENT PURCHASE CONTRACT

The following is a summary of certain provisions of the 2012 Installment Purchase Contract. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the 2012 Installment Purchase Contract. The purpose of the 2012 Installment Purchase Contract is to finance the design acquisition and construction of the 2012 Water Projects.

**Design, Acquisition, Construction and Sale of the 2012 Water Projects**

The Agency agrees to design, acquire and construct the 2012 Water Projects for, and to sell the 2012 Water Projects to, the Water District, and the Water District agrees to purchase the 2003 Water Project from the Agency. In order to implement this provision, the Agency appoints the Water District as its agent for the purpose of such design, acquisition and construction, and the Water District agrees to enter into such engineering, design and construction contracts and purchase orders as may be necessary, as agent for the Agency, to provide for the complete design, acquisition and construction of the 2012 Water Projects. The Water District agrees that as such agent it will cause the acquisition and construction of the 2012 Water Projects to be diligently completed after the deposit of funds in the Acquisition Fund for such purpose pursuant to the Trust Agreement. The Agency agrees to sell, and sells, the 2012 Water Projects to the Water District. The Water District agrees to purchase, and purchases, the 2012 Water Projects and the 2003 Water Project from the Agency. Notwithstanding the foregoing, it is expressly understood and agreed that the Agency shall be under no liability of any kind of character whatsoever for the payment of any costs or expenses incurred by the Water District (whether as agent for the Agency or otherwise) for the engineering, design, acquisition or construction of the 2012 Water Projects and that all such costs and expenses shall be paid by the Water District, regardless of whether the funds deposited in the Acquisition Fund are sufficient to cover all such costs.

**2012 Acquisition Fund**

The Agency agrees to cause proceeds of the 2012 Bonds to be transferred to the Water District, as provided in the Trust Agreement, for deposit in the 2012 Acquisition Fund, which fund is established and which fund the Water District agrees to maintain until the 2012 Water Projects have been acquired and constructed by the Water District, or until all amounts therein are expended towards such acquisition and construction. All money in the 2012 Acquisition Fund shall be applied by the Water District for the payment of the costs of the acquisition and construction of the 2012 Water Projects, payment of interest on the 2012 Installment Payments during the period during which the 2012 Water Projects are being acquired and constructed, and the incidental costs and expenses related thereto (including reimbursement to the Water District for any such costs or expenses paid by it). When the acquisition and construction of the 2012 Water Projects has been completed, the Water District shall deposit any remaining balance in the 2012 Acquisition Fund in the Water District Revenue Fund.

**2012 Purchase Price**

The 2012 Purchase Price to be paid by the Water District to the Agency is the sum of the principal amount of the Water District's obligation under the 2012 Installment Purchase Contract plus the interest to accrue on the unpaid balance of such principal amount over the term of the 2012 Installment Purchase Contract.

The interest to accrue on the unpaid balance of the principal amount of the 2012 Purchase Price shall be paid by the Water District and shall constitute interest paid on the principal amount of the Water District's 2012 Purchase Price obligation under the 2012 Installment Purchase Contract.

**Payment of the 2012 Installment Sale Payments**

The Water District shall, subject to prepayment as provided in the 2012 Installment Purchase Contract, pay the Agency the Purchase Price, without offset or deduction of any kind, by paying the principal installments of the 2012 Installment Payments annually in the amounts and on June 1 in each of the years and in accordance with the

Installment Purchase Contract, together with interest installments of the 2012 Installment Payments, which interest installments shall be paid on each applicable Interest Payment Date.

The obligation of the Water District to pay the Purchase Price by paying the 2012 Installment Payments is, subject to the provisions of the 2012 Installment Payments, absolute and unconditional, and until such time as the 2012 Installment Payments shall have been paid in full (or provision for the payment thereof shall have been made pursuant to the 2012 Installment Payments ), the Water District will not discontinue or suspend any 2012 Installment Payments required to be paid by it under the 2012 Installment Payments when due, whether or not the Water System or any part thereof is operating or operable, or its use is suspended, interfered with, reduced, curtailed or terminated in whole or in part, and such payments shall not be subject to reduction whether by offset or otherwise and shall not be conditional upon the performance or nonperformance by any party to any agreement for any cause whatsoever.

### **Covenants of the Water District**

Compliance with the 2012 Installment Purchase Contract and the Trust Agreement. The Water District will punctually pay the 2012 Installment Payments in strict conformity with the terms of the Installment Purchase Contract, and will faithfully observe and perform all the agreements, conditions, covenants and terms contained in the Installment Purchase Contract required to be observed and performed by it, and will not terminate the 2012 Installment Purchase Contract for any cause including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure of consideration, destruction of or damage to the 2012 Water Projects, the 2003 Water Project or the Water System, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State of California or any political subdivision of either or any failure of the Agency to observe or perform any agreement, condition, covenant or term contained in the Installment Purchase Contract required to be observed and performed by it, whether express or implied, or any duty, liability or obligation arising out of or connected with the Installment Purchase Contract or the insolvency, or deemed insolvency, or bankruptcy or liquidation of the Agency or any force majeure, including Acts of God, tempest, storm, earthquake, war, rebellion, riot, civil disorder, acts of public enemies, blockade or embargo, strikes, industrial disputes, lockouts, lack of transportation facilities, fire, explosion, or acts or regulations of governmental authorities.

The Water District will faithfully observe and perform all the agreements, conditions, covenants and terms contained in the Trust Agreement required to be observed and performed by it, and it is expressly understood and agreed by and among the parties to the 2012 Installment Purchase Contract and the Trust Agreement that each of the agreements, conditions, covenants and terms contained in each such agreement is an essential and material term of the obligation of the Water District to pay the Purchase Price pursuant to, and in accordance with, and as authorized under law and the 2012 Installment Purchase Contract.

### **Events of Default**

Each of the following events constitutes an Event of Default under the 2012 Installment Purchase Contract:

(1) the Water District shall default in the due and punctual payment of any 2012 Installment Payment when and as the same shall become due and payable;

(2) the Water District shall default in the performance of any of the agreements or covenants contained in the Installment Purchase Contract or in the Trust Agreement required to be performed by it, and such default shall have continued for a period of sixty (60) days after the Water District shall have been given notice in writing of such default by the Agency or the Trustee; and

(3) the Water 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 Water 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 Water District or of the whole or any substantial part of its property.



## **Remedies; No Acceleration**

Upon the occurrence of an Event of Default, the Trustee, as assignee of the Agency, shall have the right --

(a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the Water District or any member of the Board of Directors, officer or employee thereof, and to compel the Water District or any such member of the Board of Directors, officer or employee to perform and carry out its or his duties under law and the agreements and covenants required to be performed by it or him under the 2012 Installment Purchase Contract;

(b) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Agency or the Trustee; or

(c) by suit in equity upon the happening of an Event of Default to require the Water District and its members of the Board of Directors, officers and employees to account as the trustee of an express trust.

Notwithstanding the above, the Trustee shall have no right to declare the principal or interest component of any 2012 Installment Payment to be due and payable immediately.

## **Discharge of Obligations**

(a) If the Water District shall pay or cause to be paid all the 2012 Installment Payments at the times and in the manner provided in the Installment Purchase Contract, the right, title and interest of the Agency herein and the obligations of the Water District hereunder shall thereupon cease, terminate, become void and be completely discharged and satisfied, except only as provided in subsection (c).

(b) Any unpaid principal installment of the 2012 Installment Payments shall on its payment date or date of prepayment be deemed to have been paid within the meaning of and with the effect expressed in subsection (a) of this section if the Water District makes payment of such 2012 Installment Payments and the prepayment premium, if applicable, in the manner provided in the 2012 Installment Purchase Contract.

(c) All or any portion of unpaid principal installments of the 2012 Installment Payments shall, prior to their payment dates or dates of prepayment, be deemed to have been paid within the meaning of and with the effect expressed in subsection (a) of this section (except that the Water District shall remain liable for such 2012 Installment Payments, but only out of such money or securities deposited with the Trustee for such payment), if (i) notice is provided by the Water District to the Trustee as required by the Trust Agreement, and (ii) there shall have been deposited with the Trustee either money in an amount which shall be sufficient, or Federal Securities or tax-exempt obligations of a state or a political subdivision thereof which have been defeased under irrevocable escrow instructions with Federal Securities and which are then rated in the highest rating category by Moody's Investors Service, Inc., the interest on and principal of which when paid will provide money which, together with money, if any, deposited with the Trustee, shall be sufficient to pay when due the principal installments of such 2012 Installment Payments or such portions thereof on and prior to their payment dates or their dates of prepayment, as the case may be, and the prepayment premiums, if any, applicable thereto.

(d) After the payment of all 2012 Installment Payments and prepayment premiums, if any, as provided in this section, and payment of all fees and expenses of the Trustee and the Certificate Insurer, the Trustee, upon request of the Water District, shall cause an accounting for such period or periods as may be requested by the Water District to be prepared and filed with the Water District, the Agency and shall execute and deliver to the Water District and the Agency all such instruments as may be necessary or desirable to evidence such total discharge and satisfaction of the 2012 Installment Purchase Contract, and the Trustee shall pay over and deliver to the Water District, as an overpayment of 2012 Installment Payments, all such money or investments held by it pursuant to the Installment Purchase Contract other than such money and such investments as are required for the payment or prepayment of the 2012 Installment Payments, which money and investments shall continue to be held by the Trustee in trust for the payment of the 2012 Installment Payments and shall be applied by the Trustee pursuant to the Trust Agreement.

### **Liability of Water District Limited to Net Water Revenues**

The Water District is not required to advance any moneys derived from any source of income other than the Net Revenues for the payment of the 2012 Installment Payments or for the performance of any agreements or covenants required to be performed by it contained in the Installment Purchase Contract. The Water District may, however, advance moneys for any such purpose so long as such moneys are derived from a source legally available for such purpose and may be legally used by the Water District for such purpose.

The obligation of the Water District to make the 2012 Installment Payments is a special obligation of the Water District payable solely from the Net Revenues as provided in the Installment Purchase Contract, and does not constitute a debt of the Water District or of the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction.

### **Assignment**

The 2012 Installment Purchase Contract and the Agency's rights under the Installment Purchase Contract (except the rights of the Agency set forth in the Installment Purchase Contract with respect to reimbursement of costs and indemnification) shall be assigned by the Agency to the Trustee as provided in the Trust Agreement, to which assignment the Water District expressly acknowledges and consents.

## SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT

The following is a summary of certain provisions of the Trust Agreement. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Trust Agreement.

Certain provisions of the Trust Agreement setting forth the terms of the Bonds, the redemption provisions thereof and the use of the proceeds of the Bonds are set forth elsewhere in this Official Statement. See “THE BONDS.”

### **Revenues**

***Pledge of Revenues.*** All Revenues and any other amounts (including proceeds of the sale of the Bonds) held by the Trustee in any fund or account established under the Trust Agreement (other than amounts on deposit in the Rebate Fund) are irrevocably pledged to the payment of the interest and redemption premium, if any, on and principal of the Bonds as provided in the Trust Agreement, and the Revenues shall not be used for any other purpose while any of the Bonds remain Outstanding; provided, however, that out of the Revenues and other moneys there may be applied such sums for such purposes as are permitted under the Trust Agreement. This pledge shall constitute a first pledge of and charge and lien upon the Revenues and all other moneys on deposit in the funds and accounts established under the Trust Agreement (other than amounts on deposit in the Rebate Fund) for the payment of the interest and redemption premium, if any, on and principal of the Bonds in accordance with the terms of the Trust Agreement and the Bonds. In the Trust Agreement, the Agency assigned to the Trustee all of the Agency’s rights and remedies under the 2012 Installment Purchase Contract (other than the Reserved Rights); such assignment shall confer no duties or obligations of the Agency upon the Trustee and shall be subject to the provisions of the Trust Agreement.

***Receipt and Deposit of Revenues in the Revenue Fund.*** In order to carry out and effectuate the pledge, charge and lien contained in the Trust Agreement, the Agency agrees and covenants that all Revenues when and as received shall be received by the Agency in trust under the Trust Agreement for the benefit of the Holders and shall be transferred when and as received by the Agency to the Trustee for deposit in the Revenue Fund (the “Revenue Fund”), which fund is created and which fund the Trustee agrees and covenants to maintain so long as any Bonds shall be Outstanding under the Trust Agreement. All Revenues shall be accounted for through and held in trust in the Revenue Fund, and the Agency shall have no beneficial right or interest in any of the Revenues except only as provided in the Trust Agreement. All Revenues, whether received by the Agency in trust or deposited with the Trustee as provided in the Trust Agreement, shall nevertheless be allocated, applied and disbursed solely to the purposes and uses as set forth in the Trust Agreement, and shall be accounted for separately and apart from all other accounts, funds, money or other resources of the Agency.

***Establishment and Maintenance of Accounts for Use of Money in the Revenue Fund.*** Subject to the Trust Agreement, all money in the Revenue Fund shall be set aside by the Trustee in the following respective special accounts or funds within the Revenue Fund (each of which is created and each of which the Trustee agrees to cause to be maintained) in the following order of priority:

- (a) Interest Account, and
- (b) Principal Account.

All money in each of such accounts shall be held in trust by the Trustee and shall be applied, used and withdrawn only for the purposes thereafter authorized in the Trust Agreement.

***Interest Account.*** On each June 1 and December 1, commencing June 1, 2012, the Trustee shall set aside from the Revenue Fund and deposit in the Interest Account that amount of money which is equal to the amount of interest becoming due and payable on all Outstanding Bonds on such June 1 and December 1, as the case may be.

No deposit need be made in the Interest Account if the amount contained therein is at least equal to the aggregate amount of interest becoming due and payable on all Outstanding Bonds 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 Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity).

***Principal Account.*** On each May 1, the Trustee shall set aside from the Revenue Fund and deposit in the Principal Account an amount of money equal to the principal amount of all Outstanding Serial Bonds maturing or becoming subject to mandatory sinking account redemption on such May 1.

No deposit need be made in the Principal Account if the amount contained therein is at least equal to the aggregate amount of the principal of all Outstanding Serial Bonds maturing or becoming subject to mandatory sinking account redemption by their terms on such May 1.

All money in the Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Bonds as they shall become due and payable, whether at maturity or redemption.

***Deposit and Investments of Money in Accounts and Funds.*** Subject to the Trust Agreement, all money held by the Trustee in any of the accounts or funds established pursuant to the Trust Agreement shall be invested in Permitted Investments at the Written Request of the Agency. Such investments shall, as nearly as practicable, mature on or before the dates on which such money is anticipated to be needed for disbursement under the Trust Agreement. Subject to the Trust Agreement with respect to tax covenants, all interest or profits received shall be deposited in the Revenue Fund.

The Trustee may commingle the funds and accounts established under the Trust Agreement for investment purposes, but shall account for each separately. The Trustee or an affiliate may act as principal or agent in the acquisition or disposition of any investment and shall be entitled to its customary fees therefor. In the absence of written investment instructions from the Agency, the Trustee shall (i) notify the Agency in writing that it does not have investment instructions, and (ii) until such instructions are received, invest in those investments described in clause (5) of the definition of Permitted Investments. The Trustee shall not be liable for any loss for any investment made in accordance with the Trust Agreement.

***Accounting Records and Statements.*** The Trustee shall keep proper books of record and account in accordance with industry standards in which complete and correct entries shall be made of all transactions made by the Trustee relating to the receipt, investment, disbursement, allocation and application of the Revenues and the proceeds of the Bonds. Such records shall be open to inspection by the Agency, the Water District and by any Holder at any reasonable time during regular business hours on reasonable notice. Not later than the fifteenth (15th) day of each month, and continuing so long as any Bonds are Outstanding, the Trustee will furnish to the Agency and to the Water District a complete statement covering the receipts, deposits and disbursements of the funds held by the Trustee under the Trust Agreement for the preceding month.

#### **Covenants of the Agency; Assignment to Trustee**

***Punctual Payment and Performance.*** The Agency will punctually pay out of the Revenues the interest, redemption premium, if any, and principal to become due on every Bond issued under the Trust Agreement in strict conformity with the terms thereof and of the Bonds, and will faithfully observe and perform all the agreements and covenants to be observed or performed by the Agency contained in the Trust Agreement and in the Bonds.

***Against Encumbrances.*** The Agency will not make any pledge of or place any charge or lien upon the Revenues except as provided in the Trust Agreement, and will not issue any bonds, notes or obligations payable from the Revenues or secured by a pledge of or charge or lien upon the Revenues except the Bonds.

***Tax Covenants.*** (a) The Agency covenants that it shall not take any action, or fail to take any action, if such action or failure to take such action would adversely affect the exclusion from gross income of the interest

payable on the Bonds under Section 103 of the Code. Without limiting the generality of the foregoing, the Agency covenants that it will comply with the requirements of the Tax Certificate, which is incorporated in the Trust Agreement as if fully set forth therein. This covenant shall survive payment in full or defeasance of the Bonds.

(b) In the event that at any time the Agency is of the opinion that for purposes of this section it is necessary or helpful to restrict or limit the yield on the investment of any moneys held by the Trustee under the Trust Agreement, the Agency shall so instruct the Trustee under the Trust Agreement in writing, and the Trustee shall take such action as may be necessary in accordance with such instructions.

(c) Notwithstanding any provisions of this section, if the Agency shall provide to the Trustee an Opinion of Counsel of recognized standing in the field of law relating to municipal financing that any specified action required under this section is no longer required or that some further or different action is required to maintain the exclusion from federal income tax of interest on the Bonds, the Trustee may conclusively rely on such opinion in complying with the requirements of the Trust Agreement with respect to tax covenants and of the Tax Certificate, and the covenants under the Trust Agreement shall be deemed to be modified to that extent.

***Accounting Records and Reports.*** The Agency will keep or cause to be kept proper books of record and accounts in which complete and correct entries shall be made of all transactions relating to the receipts, disbursements, allocation and application of the Revenues, and such books shall be available for inspection by the Trustee, at reasonable hours and under reasonable conditions. Not more than one hundred eighty (180) days after the close of each Fiscal Year, the Agency shall furnish or cause to be furnished to the Trustee a complete financial statement covering receipts, disbursements, allocation and application of Revenues for such Fiscal Year. The Agency shall also keep or cause to be kept such other information as required under the Tax Certificate. The Trustee shall have no duty to review or examine such statement.

***Prosecution and Defense of Suits.*** The Agency will defend against every suit, action or proceeding at any time brought against the Trustee upon any claim to the extent arising out of the receipt, application or disbursement of any of the Revenues or to the extent involving the failure of the Agency to fulfill its obligations under the Trust Agreement; provided that the Trustee or any affected Holder at its election may appear in and defend any such suit, action or proceeding. The Agency will indemnify and hold harmless the Trustee against any and all liability claimed or asserted by any person to the extent arising out of such failure by the Agency, and will indemnify and hold harmless the Trustee against any attorney's fees or other expenses which it may incur in connection with any litigation to which it may become a party by reason of its actions under the Trust Agreement, except for any loss, cost, damage or expense resulting from the active or passive negligence or willful misconduct of the Trustee. Notwithstanding any contrary provision of the Trust Agreement, this covenant shall remain in full force and effect even though all Bonds secured by the Trust Agreement may have been fully paid and satisfied.

***Further Assurances.*** Whenever and so often as reasonably requested to do so by the Trustee or any Holder, the Agency will promptly execute and deliver or cause to be executed and delivered all such other and further assurances, documents or instruments, and promptly do or cause to be done all such other and further things as may be necessary or reasonably required in order to further and more fully vest in the Holders all rights, interests, powers, benefits, privileges and advantages conferred or intended to be conferred upon them under the Trust Agreement.

***Assignment to Trustee; Enforcement of Obligations.*** (a) The Agency, for good and valuable consideration, the receipt of which is acknowledged, does unconditionally grant, transfer and assign to the Trustee, without recourse, all of its rights, title and interest under the 2012 Installment Purchase Contract, except the Reserved Rights.

(b) Subject to the terms of the Trust Agreement, the Trustee also shall be entitled to take all steps, actions and proceedings reasonably necessary in its judgment (1) to enforce the terms, covenants and conditions of, and preserve and protect the priority of its interest in and under, the 2012 Installment Purchase Contract and (2) to assure compliance with all covenants, agreements and conditions on the part of the Agency contained in the Trust Agreement with respect to the Revenues.

## **Amendment of the Trust Agreement**

***Amendment of the Trust Agreement.*** The Trust Agreement and the rights and obligations of the Agency and of the Holders may be amended at any time by a Supplemental Trust Agreement which shall become binding when the written consents of the Holders of a majority in aggregate principal amount of the Bonds then Outstanding, exclusive of Bonds disqualified as provided in the Trust Agreement are filed with the Trustee. No such amendment shall (1) extend the maturity of or reduce the interest rate on or amount of interest on or principal of or redemption premium, if any, on any Bond without the express written consent of the Holder of such Bond, or (2) permit the creation by the Agency of any pledge of or charge or lien upon the Revenues as provided in the Trust Agreement superior to or on a parity with the pledge, charge and lien created by the Trust Agreement 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 any rights or obligations of the Trustee, the Agency or the Water District without their prior written assent thereto, respectively.

The Trust Agreement and the rights and obligations of the Agency and of the Holders may also be amended at any time by a Supplemental Trust Agreement which shall become binding upon adoption without the consent of the Holders, but only to the extent permitted by law and after receipt of an approving Opinion of Counsel, for any purpose that will not materially adversely affect the interests of the Holders, including (without limitation) for any one or more of the following purposes --

(a) to add to the agreements and covenants required under the Trust Agreement to be performed by the Agency other agreements and covenants thereafter to be performed by the Agency, or to surrender any right or power reserved therein to or conferred therein on the Agency;

(b) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Trust Agreement or in regard to questions arising thereunder which the Agency may deem desirable or necessary and not inconsistent with the Trust Agreement; or

(c) to add to the agreements and covenants required in the Trust Agreement, such agreements and covenants as may be necessary to qualify the Trust Agreement under the Trust Indenture Act of 1939.

***Disqualified Bonds.*** Bonds owned or held by or for the account of the Agency shall not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Bonds provided in the Trust Agreement, and shall not be entitled to consent to or take any other action provided therein.

***Endorsement or Replacement of Bonds After Amendment.*** After the effective date of any action taken as provided in the Trust Agreement, the Agency may determine that the Bonds may bear a notation by endorsement in form approved by the Agency as to such action, and in that case upon demand of the Holder of any Outstanding Bonds and presentation of the Bond for such purpose at the office of the Trustee a suitable notation as to such action shall be made on such Bond. If the Agency shall so determine, new Bonds so modified as, in the opinion of the Agency, shall be necessary to conform to such action shall be prepared and executed, and in that case upon demand of the Holder of any Outstanding Bond a new Bond or Bonds shall be exchanged at the office of the Trustee without cost to each Holder for its Bond or Bonds then Outstanding upon surrender of such Outstanding Bonds.

***Amendment by Mutual Consent.*** The Trust Agreement shall not prevent any Holder from accepting any amendment as to the particular Bonds held by him, provided that due notation thereof is made on such Bonds.

## **Amendment of the 2012 Installment Purchase Contracts**

The Agency shall not supplement, amend, modify or terminate any of the terms of the 2012 Installment Purchase Contract, or consent to any such supplement, amendment, modification or termination, without the written consent of the Trustee, which consent shall be given only if the Trustee has been furnished an Opinion of Counsel or a Certificate of the Agency to the effect that such amendment or supplement is not materially adverse to the interests of the Holders, including, but not limited to, amendments or supplements (i) to add to the agreements and covenants

of either party other agreements and covenants to be observed, or to surrender any right or power therein reserved to the Water District, or (ii) to cure, correct or supplement any ambiguous or defective provision contained therein, or (iii) to resolve questions arising thereunder as the parties thereto may deem necessary or desirable and which do not adversely affect the interests of the Holders; provided, that the Trustee may consent to any amendment of or supplement to the 2012 Installment Purchase Contract if it first obtains the written consent of the Holders of at least a majority in aggregate principal amount of the Bonds then Outstanding to such amendment or supplement.

### **Events of Default and Remedies**

***Events of Default and Acceleration of Maturities.*** If one or more of the following events (therein called “Events of Default”) shall happen, that is to say:

(a) if default shall be made by the Agency in the due and punctual payment of the interest on any Bond when and as the same shall become due and payable;

(b) if default shall be made by the Agency in the due and punctual payment of the principal of or redemption premium, if any, on any Bond when and as the same shall become due and payable, whether at maturity as therein expressed or by proceedings for redemption;

(c) if default shall be made by the Agency in the performance of any of the other agreements or covenants required in the Trust Agreement to be performed by the Agency, and such default shall have continued for a period of thirty (30) days after the Agency shall have been given notice in writing of such default by the Trustee;

(d) if the Agency 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 Agency 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 Agency or of the whole or any substantial part of its property; or

(e) if an Event of Default has occurred under the 2012 Installment Purchase Contract;

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 Holders of not less than fifty-one percent (51%) in aggregate principal amount of the Bonds then Outstanding shall, by notice in writing to the Agency, declare the principal of all Bonds then Outstanding and the interest accrued thereon to be due and payable immediately, and upon any such declaration the same shall become due and payable, anything contained in the Trust Agreement or in the Bonds to the contrary notwithstanding. The Trustee shall promptly notify all Holders of any such event of default which is continuing.

This provision, however, is subject to the condition that if at any time after the principal of the Bonds then Outstanding 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 the Agency shall deposit with the Trustee a sum sufficient to pay all matured interest on all the Bonds and all principal of Bonds matured prior to such declaration, with interest at the rate borne by such Bonds on such overdue interest and principal, and the reasonable fees and expenses of the Trustee, and any and all other defaults known to the Trustee (other than in the payment of interest on and principal of the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then and in every such case the Holders of not less than fifty-one percent (51%) in aggregate principal amount of Bonds then Outstanding, by written notice to the Agency and to the Trustee, may on behalf of the Holders of all the Bonds then Outstanding rescind and annul such declaration and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair or exhaust any right or power consequent thereon.

Upon the occurrence of an Event or Default of the 2012 Installment Purchase Contract, the Trustee may exercise any of the remedies provided for therein, which remedies do not include any right to declare any 2012 Installment Payments to be due and payable immediately.

***Application of Funds Upon Acceleration.*** All moneys in the accounts and funds provided in the Trust Agreement upon the date of the declaration of acceleration by the Trustee as provided in the Trust Agreement with respect to events of default and acceleration of maturities and all Revenues (other than Revenues on deposit in the Rebate Fund) thereafter received by the Agency under the Trust Agreement shall be transmitted to the Trustee and shall be applied by the Trustee in the following order--

First, to the payment of the costs and expenses of the Holders in providing for the declaration of such event of default, including reasonable compensation to their accountants and counsel, and to the payment of the fees, costs and expenses of the Trustee, if any, in carrying out the provisions of the Trust Agreement relating to Events of Default, including reasonable compensation to its accountants and counsel; and

Second, 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, with (to the extent permitted by law) interest on the overdue interest and principal at the rate borne by such Bonds, and in case such money shall be insufficient to pay in full the whole amount so owing and unpaid upon the Bonds, then to the payment of such interest, principal and (to the extent permitted by law) interest on overdue interest and principal without preference or priority among such interest, principal and interest on overdue interest and principal ratably to the aggregate of such interest, principal and interest on overdue interest and principal.

***Institution of Legal Proceedings by Trustee.*** If one or more of the events of default shall happen and be continuing, the Trustee may, and upon the written request of the Holders of a majority in principal amount of the Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of the Holders of Bonds under the Trust Agreement by a suit in equity or action at law, either for the specific performance of any covenant or agreement contained in the Trust Agreement, or in aid of the execution of any power therein or therein granted, or by mandamus or other appropriate proceeding for the enforcement of any other legal or equitable remedy as the Trustee shall deem most effectual in support of any of its rights and duties under the Trust Agreement.

***Non-Waiver.*** Nothing in the Trust Agreement or in any other provision thereof or in the Bonds shall affect or impair the obligation of the Agency, which is absolute and unconditional, to pay the interest and redemption premiums, if any, on and principal of the Bonds to the respective Holders of the Bonds at the respective dates of maturity or upon prior redemption as provided in the Trust Agreement from the Revenues as provided therein pledged for such payment, or shall affect or impair the right of such Holders, which is also absolute and unconditional, to institute suit to enforce such payment by virtue of the contract embodied in the Trust Agreement and in the Bonds.

A waiver of any default or breach of duty or contract by the Trustee or any Holder shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Trustee or any Holder to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or remedy or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Holders by the Act or by the Trust Agreement may be enforced and exercised from time to time and as often as shall be deemed expedient by the Trustee or the Holders.

If any action, proceeding or suit to enforce any right or exercise any remedy is abandoned, the Agency, the Trustee and any Holder shall be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

***Actions by Trustee as Attorney-in-Fact.*** Any action, proceeding or suit which any Holder shall have the right to bring to enforce any right or remedy under the Trust Agreement may be brought by the Trustee for the equal benefit and protection of all Holders, whether or not the Trustee is a Holder, and the Trustee is appointed (and the



any successive Holders, by taking and holding the Bonds issued under the Trust Agreement, shall be conclusively deemed to have so appointed it) the true and lawful attorney-in-fact of the Holders for the purpose of bringing any such action, proceeding or suit and for the purpose of doing and performing any and all acts and things for and on behalf of the Holders as a class or classes as may be advisable or necessary in the opinion of the Trustee as such attorney-in-fact.

**Remedies Not Exclusive.** No remedy conferred in the Trust Agreement upon or reserved to the Holders is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given under the Trust Agreement or now or hereafter existing at law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by the Act or any other law.

**Limitation on Bondholders' Right to Sue.** No Holder of any Bond issued under the Trust Agreement shall have the right to institute any suit, action or proceeding at law or equity, for any remedy under or upon the Trust Agreement, unless (a) such Holder shall have previously given to the Trustee written notice of the occurrence of an event of default as defined under the Trust Agreement; (b) the Holders of at least a majority in aggregate principal amount of all the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such suit, action or proceeding in its own name; (c) said Holders shall have tendered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are declared, in every case, to be conditions precedent to the exercise by any owner of Bonds of any remedy under the Trust Agreement; it being understood and intended that no one or more owners of Bonds shall have any right in any manner whatever by his or their action to enforce any right under the Trust Agreement, except in the manner provided therein, and that all proceedings at law or in equity to enforce any provision of the Trust Agreement shall be instituted, had and maintained in the manner provided therein and for the equal benefit of all Holders of the Outstanding Bonds.

## **Defeasance**

**Discharge of Bonds.** (a) If the Agency shall pay or cause to be paid or there shall otherwise be paid to the Holders of all Outstanding Bonds the interest thereon and the principal thereof and the redemption premiums, if any, thereon at the times and in the manner stipulated in the Trust Agreement and therein, then the Holders of such Bonds shall cease to be entitled to the pledge of and charge and lien upon the Revenues as provided in the Trust Agreement, and all agreements, covenants and other obligations of the Agency to the Holders of such Bonds under the Trust Agreement shall thereupon cease, terminate and become void and be discharged and satisfied. In such event, the Trustee shall execute and deliver to the Agency all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee shall pay over or deliver to the Agency all money or securities held by it pursuant to the Trust Agreement which are not required for the payment of the interest and redemption premium, if any, on and principal of such Bonds.

(b) Any Outstanding Bond shall prior to their dates or their dates of redemption prior thereto be deemed to have been paid within the meaning of and with the effect expressed in subsection (a) above if (1) in case any of such are to be redeemed on any date prior to their maturity dates, the Agency shall have given to the Trustee in form satisfactory to it irrevocable instructions to give notice of redemption in accordance with the Trust Agreement to the Holders of such Bonds of the redemption of such Bonds on such redemption dates, (2) there shall have been deposited with the Trustee pursuant to an escrow agreement either money in an amount which shall be sufficient, or Federal Securities or tax-exempt obligations of a state or a political subdivision thereof which have been defeased under irrevocable escrow instructions with Federal Securities and which are rated in the highest rating category by Moody's Investors Service, Inc. and Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc., the interest on and principal of which when paid will provide money which, together with money, if any, deposited with the Trustee, shall be sufficient to pay when due the interest on and prior to their maturity date or date of redemption prior thereto, and redemption premium, if any, on and the principal of such Bonds, and (3) in the event such Bonds are not by their terms subject to redemption within the next succeeding sixty

(60) days, the Agency shall have given the Trustee in form satisfactory to it irrevocable instructions to give notice to the Holders of such Bonds that the deposit required by clause (2) above has been made with the Trustee and that such Bonds are deemed to have been paid in accordance with the Trust Agreement and stating their maturity dates or their dates of redemption prior thereto upon which money is to be available for the payment of the interest and redemption premium, if any, on and principal of such Bonds. Upon satisfaction of the foregoing conditions with respect to any Bond, the Trustee shall deliver to the Agency a certificate evidencing the discharge of the Agency's obligations with respect thereto.

(c) After the payment of all interest on and principal of all Outstanding Bonds as provided in subsections (a) or (b) above, and the payment of all fees and expenses of the Trustee, the Trustee, upon receipt of a Request of the Agency, shall cause an accounting for such period or periods as may be requested by the Agency to be prepared and filed with the agency and the Water District and shall execute and deliver to the Agency and the Water District all such instruments as may be necessary or desirable to evidence such total discharge and satisfaction of the Trust Agreement, and the Trustee shall pay over or deliver to the Agency all money or investments held by it pursuant to the Trust Agreement which are not required for the payment of interest redemption premium, if any, or principal which money and investments shall be used by the Agency for any lawful purpose.

### **Miscellaneous**

***Liability of Agency Limited to Revenues.*** Notwithstanding anything contained in the Trust Agreement, the Agency shall not be required to advance any money derived from any source other than the Revenues as provided in the Trust Agreement for the payment of the interest on or principal of or redemption premiums, if any, on the Bonds or for the performance of any agreements or covenants contained therein. The Agency may, however, advance funds for any such purpose so long as such funds are derived from a source legally available for such purpose without incurring an indebtedness.

The Bonds are limited obligations of the Agency and are payable, as to interest thereon, principal thereof and any premiums upon the redemption of any thereof, solely from the Revenues as provided in the Trust Agreement, and the Agency is not obligated to pay them except from the Revenues. All the Bonds are equally secured by a pledge of and charge and lien upon the Revenues, and the Revenues constitute a trust fund for the security and payment of the interest and redemption premium, if any, on and principal of the Bonds as provided in the Trust Agreement. The Bonds are not a debt of the Water District or the State or any of its political subdivisions, and neither the Agency, the Water District, said State nor any of its political subdivisions is liable thereon, nor in any event shall the Bonds be payable out of any funds or properties other than those of the Agency as provided in the Trust Agreement. The Bonds do not constitute an indebtedness within the meaning of any constitutional or statutory limitation or restriction.

***Benefits of the Trust Agreement Limited to Parties.*** Nothing contained in the Trust Agreement, expressed or implied, is intended to give to any person other than the Agency, the Trustee and the Holders any right, remedy or claim under or by reason of the Trust Agreement; provided, the Water District shall be a third party beneficiary of the Trust Agreement. Any agreement or covenant required in the Trust Agreement to be performed by or on behalf of the Agency or any member, officer or employee thereof shall be for the sole and exclusive benefit of the Trustee, the Holders and the Water District.

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**APPENDIX B**

**AUDITED FINANCIAL STATEMENTS OF THE WATER DISTRICT FOR THE  
FISCAL YEAR ENDED JUNE 30, 2011**

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**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**OF THE**

**ALAMEDA COUNTY WATER DISTRICT**

**FOR THE FISCAL YEAR ENDED**

**JUNE 30, 2011**

**P.O. Box 5110  
43885 South Grimmer Boulevard  
Fremont, California 94537**

**PREPARED BY THE FINANCE DEPARTMENT**



**Alameda County Water District  
 Comprehensive Annual Financial Report  
 For the years ended June 30, 2011 and 2010**

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# INTRODUCTORY SECTION

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**DIRECTORS**

43885 SOUTH GRIMMER BOULEVARD • P.O. BOX 5110, FREMONT, CALIFORNIA 94537-5110  
(510) 668-4200 • FAX (510) 770-1793 • www.acwd.org

**MANAGEMENT**

- JUDY C. HUANG  
President
- JOHN H. WEED  
Vice President
- JAMES G. GUNTHER
- MARTIN L. KOLLER
- PAUL SETHY

- WALTER L. WADLOW  
General Manager
- ROBERT SHAVER  
Assistant General Manager-Engineering
- SHELLEY BURGETT  
Manager of Finance
- STEVE PETERSON  
Manager of Operations and Maintenance
- ALTARINE C. VERNON  
Manager of Administrative Services

October 7, 2011

To the Board of Directors and Our Customers:

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the Alameda County Water District (the District) for the fiscal year ended June 30, 2011.

We believe the report presented is accurate in all material respects, that it is presented in a manner designed to fairly set forth the financial position, the changes in financial position and cash flows of the District and that all disclosures necessary to enable the reader to gain the maximum understanding of the District's financial activity have been included. Additionally, the financial section of the report includes a detailed discussion and analysis by management of the District's financial performance for fiscal years ended June 30, 2011 and 2010. Responsibility for both the accuracy of the presented data and the completeness and the fairness of the presentation, including all disclosures, rests with the District.

The CAFR follows the financial reporting guidelines recommended by the Government Finance Officers Association of the United States and Canada.

**THE REPORTING ENTITY**

The District was established as a special district in 1913 by a vote of the people to ensure a continuous supply of quality water for agricultural and urban purposes. The District was the first agency formed under the State of California's County Water District Act. Since its founding, the District has been a water conservation agency. It is responsible for the groundwater supply underlying the cities of Fremont, Newark and Union City in southern Alameda County.

Since 1930, the District has also been a water distribution agency. From the purchase of a small water distribution system in Alvarado (now part of Union City), the District has expanded to serve almost all of the area covered by its conservation activities. The District produces, stores, treats and distributes water for a population of approximately 328,000 people in southern Alameda County. The District covers approximately 100 square miles and, as of June 2011, provided water service through over 81,000 connections.

The District's current water production is approximately 47,000 acre-feet per year. Water is provided to the District from four sources: groundwater from the Niles Cone Groundwater Basin (including fresh groundwater from two well fields and desalination of brackish groundwater), surface water from the Del Valle Reservoir, water imported from the State of California's State Water Project and water imported from the San Francisco Regional Water System. The amount of water available from these sources is highly variable in any given year due to hydrologic conditions and other factors. Assuming wet local conditions and full delivery of imported water supplies, these four sources may provide up to a maximum of approximately 90,000 acre-feet per year.



The District is governed by a five-member Board of Directors elected at-large from within the District's service area. The Board of Directors appoints the General Manager who is responsible for the administration of the District through its five departments - Office of the General Manager, Administrative Services, Engineering, Finance, and Operations & Maintenance. The General Manager's Office organizes and directs District activities in accordance with the Board's policies. The District has an authorized staff of 226 full-time employees.

The Alameda County Water District Public Facilities Financing Corporation, a component unit of the District, was established in 1992 to issue debt for the benefit of the District.

### **Alameda County Water District Mission Statement**

It is the mission of the District to provide a reliable supply of high quality water at a reasonable price to our customers. To fulfill this mission, the District will:

- Provide prompt, courteous and responsive customer service.
- Ensure that sound, responsible financial management practices are observed in the conduct of District business.
- Plan, design and operate facilities efficiently, effectively and safely, bearing in mind the District's responsibility to be a good neighbor and a good steward of the environment.
- Promote ethical behavior in the conduct of District affairs, and facilitate the public's involvement in the planning and development of District policy.
- Recruit and retain a qualified, productive workforce and maintain a workplace environment where diversity and excellence are valued and where creativity, teamwork, and open communication are actively encouraged.

### ***Significant Events and Accomplishments***

#### **Newly Expanded Desalination Facility Begins Producing Water**

The Newark Desalination Facility (NDF), offline for two years to upgrade its capacity from 5 million gallons per day to 12 million gallons per day, was returned to service on August 24, 2010 and began producing water for District customers.

The NDF, dedicated in 2003, was the first brackish water desalination facility in northern California. It uses reverse osmosis to remove salts and other minerals from brackish (slightly salty) groundwater. The resulting high quality water is blended with other supplies before being delivered to residents and businesses in the District's service area.

Originally designed to convert 5 million gallons of brackish water to potable drinking water every day, the NDF was recently expanded to more than double its capacity. The newly upgraded facility will improve water supply reliability for the entire service area. Because non-local water supplies are sometimes less reliable, it is important to make the most of local supplies. The expanded NDF is an important element in guaranteeing a more dependable water supply for the Tri-City area because the additional water it produces will be completely under local control. The California Department of Water Resources recognized the importance of this local project and awarded the District \$2.8 million through Proposition 50 to help fund its completion.

### **District Receives National Award for Ongoing Safe Water Practices**

The District's Mission San Jose Water Treatment Plant, which purifies water using ultra-filtration membranes, in 2011 received an honor achieved by only 76 water utilities across the country - 10 straight years of achieving the Directors Award of Recognition from the Partnership for Safe Water.

The Partnership for Safe Water is a national volunteer initiative developed by the U.S. Environmental Protection Agency and other water organizations striving to provide their communities with drinking water quality that surpasses the required federal standards. The Directors Award is presented to water systems that have completed a successful review in the Partnership's Self-Assessment and Peer Review phase, in which utilities examine the capabilities of their treatment plant operation and administration and then plan for implementing improvements.

The Partnership currently includes more than 200 water utilities, collectively serving more than 85 million people. This represents 60% of the U.S. population served by surface water systems. The District's ongoing participation in the program includes a rigorous review of treatment practices developed by national experts, as well as a four-step, self-assessment and peer-review process.

### **District Awarded \$1.45 Million to Improve Steelhead Migration in Alameda Creek**

In FY 2010-11, the District was awarded \$1.45 million in grants to improve steelhead trout migration in Alameda Creek. The money was awarded by the California Department of Fish and Game (CDFG) as part of its Fisheries Restoration Grant Program.

The CDFG grants will help fund two projects that will improve passage for steelhead trout in the Alameda Creek Flood Control Channel. In conjunction with other Alameda Creek watershed projects completed, planned, or underway, these projects will make nearly 15 miles of stream habitat available once again to migrating and spawning steelhead.

One million dollars of the grant funds will be used to help construct a fish ladder over the District's lowermost rubber dam and the adjacent Alameda County Flood Control and Water Conservation District's (ACFC) flood control structure, commonly known as the "BART weir." The ladder will allow adult steelhead to pass over these structures on their way to spawning grounds further upstream. The fish ladder is a collaborative effort being jointly undertaken by the District and ACFC.

The remaining \$445,000 will help fund the installation of fish screens on the District's water supply diversion points at Kaiser and Shinn ponds. Fish screens eliminate the potential for migrating steelhead from being carried into and trapped in these groundwater recharge ponds.

These two projects are part of a much larger effort to restore steelhead in the Alameda Creek watershed. Within the last few years, the District has removed a rubber dam and installed two fish screens. ACFC, the San Francisco Public Utilities Commission, Zone 7 Water Agency, and the East Bay Regional Park District have also played an important role in improving conditions in Alameda Creek for the federally threatened steelhead trout and other native fish.

To date, the District has been awarded over \$4 million in grants to remove or modify its water supply structures in order to enhance safe passage for steelhead in the Alameda Creek Flood Control Channel.

### **District Presents Clair A. Hill Scholarship to Margaret Wild**

On May 5, 2010, the Association of California Water Agencies (ACWA) presented the prestigious Clair A. Hill Water Agency Award for Excellence to the District for its innovative "Stop that Running Toilet" school outreach program. As the Award recipient, the District had the honor of presenting the \$5,000 Clair A. Hill Scholarship to a deserving student during the ACWA Spring Conference in May of 2011.

The District began its scholarship outreach efforts in October of 2010. Fifty public and private colleges and universities in California were contacted. By the application deadline in February of 2011, 68 scholarship applications had been received, representing 24 colleges and universities. Out of the 68 applications, the District's Scholarship Committee selected three finalists to submit to the ACWA Scholarship Committee. After much deliberation, ACWA selected Margaret Wild as the recipient of the Clair A. Hill Scholarship for the 2011-2012 school year.

Margaret will be a senior at University of the Pacific in the fall of 2011. She is pursuing a degree in civil engineering with a concentration in water resources. The District formally presented the scholarship to Margaret on May 12, 2011 at the ACWA Spring Conference in Sacramento.

### **School Education Program**

The District's School Education Program provides local school classrooms with educational resources that stress the various facets of water science and water management, with the objective of producing citizens capable of making informed decisions regarding state and local water resources. During the 2010-2011 fiscal year, the District continued its educational outreach within its service area by:

- Presenting water education programs to over 6,600 students in 220 classrooms.
- Distributing more than 57,000 pieces of printed educational material to teachers and students.
- Sponsoring 64 performances of ZunZun's latest water conservation theater program which was viewed by over 14,837 students at 32 schools.
- Training teachers in the use of popular water education curriculum guides.
- Sponsoring its annual Water Conservation Poster and Slogan Contest in which over 1,100 students vied for the opportunity to have their creations included in the 2011-2012 District Water Conservation Calendar.

### **Water Conservation Programs**

Water Conservation extends our water supplies, benefits the environment, helps keep water rates down, and allows the District to "bank" water for dry years. To encourage customers to save water, the District implemented new or continued existing water conservation programs during the fiscal year 2010-2011:

- On-site water efficiency surveys were offered to residential, business, and industrial customers.
- Rebates for replacing turf grass with water efficient landscaping were offered to residential and commercial customers.
- Rebates for the purchase of water conserving clothes washers were offered to residential and commercial customers.
- Rebates for the purchase of weather-based irrigation controllers were offered to commercial customers.
- Water conservation kits were distributed to residents of the District's service area.
- Water saving tips were distributed to residential customers through the District's customer newsletter, the *ACWD Aqueduct*.
- The Commercial High Efficiency Toilet Rebate Program continued.
- Through the Designated Landscape Program, which provides landscape water use reports and on-site landscape surveys, District staff worked with large landscape accounts to improve irrigation efficiency. Awards were offered to participants that demonstrated water use efficiency.
- Partnered in the sponsoring of drought tolerant plant/landscaping workshops.
- Conducted a High Water Use Notification Program for residential customers to help them identify ways to reduce their water use.
- Implemented a leak detection through meter reader alert program.
- Monitored water waste through coordination with other District departments.

## **Groundwater Protection Programs**

The District oversees the investigation and remediation at Leaking Underground Fuel Tank and Spills, Leaks, Investigation and Cleanup sites in its service area as part of a cooperative agreement with the California Regional Water Quality Control Board - San Francisco Bay Region. In fiscal year 2010-2011, the District closed a total of 16 cases in the Groundwater Protection Program to protect the quality of the District's groundwater resources.

On December 9, 2010, the District adopted an "Ordinance to Regulate Wells, Exploratory Holes, and Other Excavations within the Cities of Fremont, Newark, and Union City." Prior to this ordinance, the District regulated the construction, repair, reconstruction, destruction, or abandonment of wells under the authority of local well ordinances that were adopted by each city in 1973. The District's ordinance became possible after SB 133, the "Alameda County Water District Groundwater Protection Act," was approved by both the California Senate and the Assembly and was signed by the Governor on October 11, 2009.

## **Other Accomplishments**

In addition, during the fiscal year 2010-2011, the District:

- Assured the quality of Tri-City area water by conducting approximately 60,000 water quality analyses and complying with all state and federal water quality monitoring regulations.
- Produced 47,382 acre feet of water for use by the residents and businesses in Fremont, Newark, and Union City.
- Produced the 2010 Water Quality Report and mailed it to approximately 118,000 addresses in the District's service area.
- Produced and distributed three editions of the *ACWD Aqueduct*, the District's customer newsletter.
- Was designated a Groundwater Guardian Affiliate by the Groundwater Foundation for the 13<sup>th</sup> straight year.
- Was awarded the National Purchasing Institute's Achievement of Excellence in Procurement Award for the eighth consecutive year.
- Received the Certificate of Achievement of Excellence in Financial Reporting for the 12<sup>th</sup> consecutive year.

## **FINANCIAL INFORMATION**

### ***Local Economy***

The local economy of the District service area has approximately mirrored that of nearby Silicon Valley and of the greater Bay Area where there was a boom some 10 years ago at the setting of the "dot.com" era with low unemployment (2-3%) and a healthy industrial base. The "Great Recession" over the last number of years has caused unemployment to increase (10-11%) and the industrial base to decrease. The economy has had its up and downs of late and the future recovery period is anticipated to be slow. The local economy is as sluggish as the economy at a national and state level. The ongoing recession has negatively affected water sales and is one factor in the steady decrease in water usage over the past several years. The District suffered the closure of the New United Motor Manufacturing, Incorporated (NUMMI), an automotive manufacturing plant in Fremont, on April 1, 2010, and it was anticipated that new businesses such as Tesla Motors and Solyndra may help offset the loss in water demand from NUMMI. Unfortunately during August of 2011 Solyndra declared bankruptcy. This will mean an approximate loss of revenue from water sales of about \$.5 million per year or about 0.8 percent of water sales revenue.

### ***"Future of ACWD" Initiative***

Water demand in the District's service area has decreased significantly in recent years as a result of local and state-wide water conservation initiatives, unseasonably cool summer temperatures, and reduced industrial-related (mostly manufacturing) water demand. This has resulted in a corresponding reduction in the District's operating revenue which has been mitigated by necessary rate increases to ensure the ongoing operations of the District as well as providing necessary revenues to ensure adequate debt service coverage.



Although the District has implemented cost-cutting measures to minimize water rate increases, operating and maintaining a water utility still entails a high percentage of fixed operating costs (e.g., water treatment plants must still be constantly operated and maintained 24 hours per day and leaks in water mains and service connections need to be repaired on a timely basis to ensure adequate public health and safety).

The District has compared its situation with other water utilities, both in the San Francisco Bay Area and nationally, and has found that the local circumstances are not unique. For this reason, the District management has concluded that simply raising water rates and implementing additional and deeper cost cutting measures will not be sustainable in the long term.

Therefore, the District has embarked on strategic initiative intended to achieve the following goals:

- Transition from thinking of itself as simply a water purveyor to being a water services utility
- Reduce overall percentage of fixed cost operations (reduce fixed operating costs relative to overall operating costs)
- Diversify revenue streams
- Increase efficiencies through productivity gains

To achieve these objectives, District Management believes that the culture of the District must evolve to become more flexible, more nimble, and more embracing of change, while remaining focused on public health and safety. Accordingly, District management is engaging with all staff to create new revenue streams (currently, 80% of operating revenue is from water sales). As new revenue streams are developed, District Management believes that the current high levels of service to its customers can not only be maintained, but enhanced.

### *Technology Improvement Initiative*

A key District initiative over the next several years will be the implementation of the Information Technology Master Plan (ITMP). After extensive effort in 2010 by consultants and District staff, a list of 13 recommendations was developed. Recommendations included upgrades, modifications, or changes to financial software, the customer information system, geographic information systems, laboratory systems, website and social media, servers and system infrastructure, Supervisory Control and Data Acquisition (SCADA) and provisions for business continuity. The total cost of these recommendations is estimated to be \$12 million over the duration of the program. These projects will improve the effectiveness and efficiency of work processes within the District, as well as provide customers with more options and better service. Current projects in progress include the implementation of a new customer information and billing system with a target completion date of March, 2012, planning and preparatory work for an upgrade of the existing financial software system, SCADA project work, and implementation of various improvements and software upgrades to the internal network of personal computers and the District website.

### *Rates and Charges*

The District has conducted two major rate studies over the last year. Extensive research has been done on a water efficiency type rate structure (e.g., tiered rates) to encourage more efficient use of existing water resources. The District is mindful of preserving the existing limited portfolio of water sources and is also looking to prevent the need for purchasing potentially more expensive and scarce new water sources in the future. This rate structure is being evaluated at the present time and is under consideration for a possible future implementation. In addition, a rigorous review of all developer-related charges has been completed and changes will be recommended for implementation to reflect current costs along with consideration of potential future development scenarios within the District's service territory.

### ***Debt Issuance***

The District is anticipating issuing new revenue bonds in early 2012 to provide \$22 million of net proceeds to fund a portion of the District's capital plan. The projects being funded will focus on seismic reliability, as the District is located in a seismically sensitive area, improving water service and fire flows, and improving water supply and production reliability. The District carries an extremely high credit rating of AAA from Standard and Poor's and Aa2 from Moody's. Borrowing rates are at or near those experienced in the 1950s. Since interest rates are currently favorable, the District is also considering refunding the outstanding balance of \$25 million of the 2003 Certificates of Participation. Market conditions are being monitored and a decision on the potential refunding will be made closer to the time of pricing for the new bond proceeds.

### ***Internal Control***

The District's automated financial reporting system was designed with an emphasis on the importance of internal financial controls, including the proper recording of revenues and expenditures and maintenance of budgetary control for the allocation of available resources. These controls are designed to provide reasonable, but not absolute, assurance that (1) assets are safeguarded against waste, fraud and inefficient use and (2) the District's financial records can be relied upon to produce financial statements in accordance with accounting principles generally accepted in the United States of America. The concept of reasonable assurance recognizes that the cost of maintaining the system of internal controls should not exceed benefits likely to be derived, and that the evaluation of costs and benefits requires estimates and judgments by management. We believe that the District's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

### ***Budgetary Control***

The District's budget is a detailed operating plan that identifies estimated costs in relation to estimated revenues. The budget includes the projects, services and activities to be carried out during the fiscal year and the estimated revenue available to finance these operating and capital costs. The District's operating and capital budgets are approved by the Board of Directors. The General Manager has the discretion to transfer appropriations between activities and to approve reserve appropriations within Board authorized procurement limits. All such transfers and reserve appropriations are reported to the Board of Directors on a quarterly basis. Board approval is required for all other increases in appropriations. The budget represents a process wherein policy decisions made by the Board of Directors are adopted, implemented and controlled. Budget control is maintained through the use of object codes and account appropriations. Actual expenditures are then compared to these appropriations on a monthly basis.

### ***Long-Term Financial Planning***

The District utilizes three main comprehensive long range integrated planning models: the Integrated Resources Plan (IRP), Capital Improvement Program (CIP) and Financial Plan. The IRP process evaluates a wide range of water supply and water conservation options as well as land use projections in the District's service area to develop the District's long range water supply strategy necessary to meet projected demands. The CIP includes project schedules and projected costs for production facilities identified in the IRP and other projects to support and maintain water supply and system reliability, public health and water quality, and environmental compliance. The Financial Plan includes short and long range projections of the District's revenues, operating and maintenance expenses, capital expenditures, and reserves over the next number of years. General Fund balances are projected to be positive over the next several years.

## OTHER INFORMATION

### *Independent Audit*

An independent audit by certified public accountants is important in determining the reliability of the District's financial statements. The importance of such verification has been recognized by the federal and state government, the District's bond holders and the general public. The District contracted with the accounting firm of Macias Gini and O'Connell LLP for this audit. The audit was conducted in accordance with auditing standards generally accepted in the United States of America. The firm's report has been included in the financial section of this report.

### *Award*

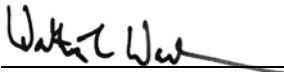
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the District for its comprehensive annual financial report for the fiscal year ended June 30, 2010. This was the twelve consecutive year that the District has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

### *Acknowledgments*

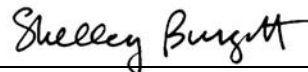
The preparation of this report has been accomplished due to the dedicated and professional efforts of the staff of the Finance Department along with the cooperation of staff from the District's other departments, and guidance from the accounting firm of Macias Gini and O'Connell LLP. We would also like to thank the Board of Directors for their continued support in planning and conducting the District's financial affairs in a responsible and progressive manner.

Respectfully submitted,



---

Walter Wadlow  
General Manager



---

Shelley Burgett  
Manager of Finance

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

Alameda County Water District  
California

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2010

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



President

Executive Director

*Alameda County Water District*

*Board of Directors*

*Judy C. Huang*  
President

*John H. Weed*  
Vice President

*James G. Gunther*  
Director

*Martin L. Koller*  
Director

*Paul Sethy*  
Director

*Principal Management Personnel*

*Walter Wadlow*  
General Manager

*Robert Shaver*  
Assistant General Manager -Engineering

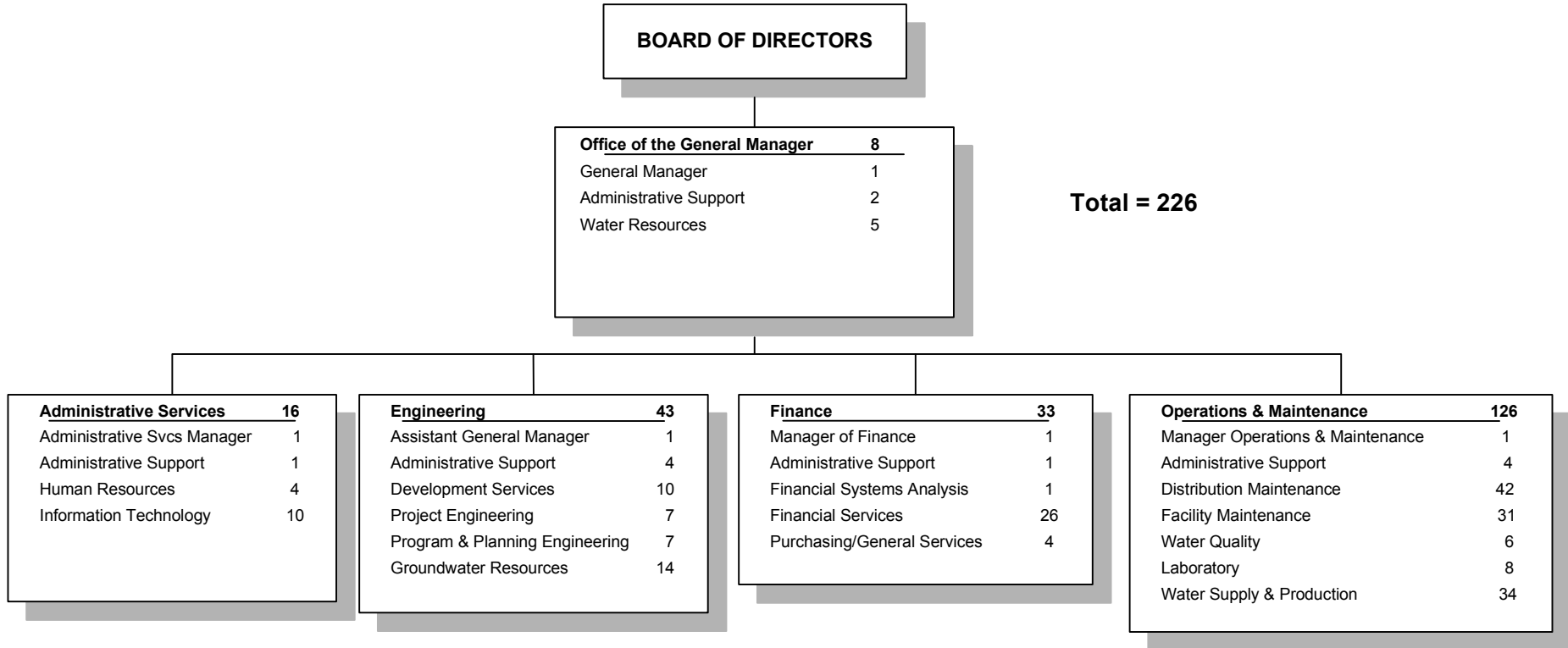
*Steven Peterson*  
Manager of Operations & Maintenance

*Altarine Vernon*  
Manager of Administrative Services

*Shelley Burgett*  
Manager of Finance

**ALAMEDA COUNTY WATER DISTRICT  
FUNCTIONAL ORGANIZATIONAL CHART  
FY 11/12 & 12/13**

IX.



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# FINANCIAL SECTION

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The Board of Directors of the  
Alameda County Water District  
Fremont, California

### Independent Auditor's Report

We have audited the accompanying financial statements of the business-type activity and the other post employment benefit trust fund of the Alameda County Water District (District) as of and for the years ended June 30, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 financial statements present fairly, in all material respects, the respective financial position of the business-type activity and the other post employment benefits trust fund of the District as of June 30, 2011 and 2010, and the respective changes in its financial position and, where applicable, cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2.N. to the financial statements, during the year ended June 30, 2010, the District implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2011 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of funding progress identified in the accompanying table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the financial statements. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

*Macias Gini & Connell LLP*  
Walnut Creek, California  
October 7, 2011

**Alameda County Water District  
Management's Discussion and Analysis (Unaudited)  
For the years ended June 30, 2011 and 2010**

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This section of the Alameda County Water District's (District) comprehensive annual financial report presents an analysis of the District's financial performance during the fiscal years ended June 30, 2011 and 2010. This information is presented in conjunction with the audited basic financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2011**

- The District's net assets increased by \$6.5 million or 1.6 percent from \$397.8 million to \$404.3 million.
- Operating revenues increased by \$5.8 million or 9.6 percent from \$60.2 million to \$66.0 million.
- Operating expenses increased by \$2.2 million or 3.2 percent from \$68.1 million to \$70.3 million.
- Capital contributions to the District decreased by \$1.8 million or 32.7 percent from \$5.5 million to \$3.7 million.
- The District implemented an 8.0% increase to its commodity rate and service charges effective March 1, 2011.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The financial statements consist of the following three parts: Management's Discussion and Analysis, Basic Financial Statements and Other Required Supplementary Information. The financial statements include notes which explain in detail some of the information included in the financial statements.

**REQUIRED FINANCIAL STATEMENTS**

The financial statements of the District report information utilizing the full accrual basis of accounting. The financial statements conform to accounting principles which are generally accepted in the United States of America. The Statements of Net Assets include information on the District's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). The Statements of Revenues, Expenses and Changes in Net Assets identify the District's revenues and expenses for the fiscal years ended June 30, 2011 and 2010. This statement provides information on the District's operations over the past two fiscal years and can be used to determine whether the District has recovered all of its actual and projected costs through user fees and other charges. The third financial statement is the Statements of Cash Flows. This statement provides information on the District's cash receipts, cash payments and changes in cash resulting from operations, investments and financing activities. From the Statements of Cash Flows, the reader can obtain comparative information on the sources and uses of cash and the changes in the cash and cash equivalents balance for each of the last two fiscal years.

## FINANCIAL ANALYSIS OF THE DISTRICT

The Statements of Net Assets (page 10) and the Statements of Revenues, Expenses and Changes in Net Assets (page 11) provide an indication of the District's financial condition and also indicate whether the financial condition of the District improved during the last fiscal year. The District's net assets reflect the difference between assets and liabilities. An increase in net assets over time typically indicates an improvement in financial condition.

A summary of the District's Statements of Net Assets is presented below.

Table 1  
Condensed Statements of Net Assets  
(In millions of dollars)

	2011	2010	2011 vs. 2010		2009	2010 vs. 2009	
			\$ Change	% Change		\$ Change	% Change
Current and other assets	\$ 119.8	\$ 120.1	\$ (0.3)	-0.2%	\$ 117.4	\$ 2.7	2.3%
Capital assets	341.9	337.8	4.1	1.2%	328.6	9.2	2.8%
<b>Total assets</b>	<b>461.7</b>	<b>457.9</b>	<b>3.8</b>	<b>0.8%</b>	<b>446.0</b>	<b>11.9</b>	<b>2.7%</b>
Long-term debt	46.4	48.3	(1.9)	-3.9%	52.7	(4.4)	-8.3%
Other liabilities	11.0	11.8	(0.8)	-6.8%	11.6	0.2	1.7%
<b>Total liabilities</b>	<b>57.4</b>	<b>60.1</b>	<b>(2.7)</b>	<b>-4.5%</b>	<b>64.3</b>	<b>(4.2)</b>	<b>-6.5%</b>
Invested in capital assets, net of related debt	298.3	292.2	6.1	2.1%	275.9	16.3	5.9%
Restricted for debt service	2.4	2.5	(0.1)	-4.0%	7.7	(5.2)	-67.5%
Unrestricted	103.6	103.1	0.5	0.5%	98.1	5.0	5.1%
<b>Total net assets</b>	<b>\$ 404.3</b>	<b>\$ 397.8</b>	<b>\$ 6.5</b>	<b>1.6%</b>	<b>\$ 381.7</b>	<b>\$ 16.1</b>	<b>4.2%</b>

As the above table indicates, total assets increased by \$3.8 million from \$457.9 million to \$461.7 million during the fiscal year ended June 30, 2011. This is comprised of a decrease of \$0.3 million in current and other assets and an increase of \$4.1 million in capital assets. The increase in capital assets was primarily from the completion of several capital projects during the year. For the fiscal year ended June 30, 2010, total assets increased by \$11.9 million from \$446.0 million to \$457.9 million. This increase is due primarily to an increase of \$9.2 million in capital assets. The increase in each fiscal year, in total net assets, reflect favorable operations and use of planned accumulation of reserves for upcoming major capital projects that are identified in the District's long range Capital Improvement Program.

For fiscal year ended June 30, 2011, total liabilities reflect a decrease of \$2.7 million due mainly to the regularly scheduled annual debt service payment and a decrease in accounts payable and accrued expenses due at the end of the year. For fiscal year ended June 30, 2010, total liabilities reflect a decrease of \$4.2 million due mainly to a reduction in long term debt as a result of refunding the 1998 bonds and scheduled principal payments during the year, and a decrease in the end of year accounts payable and accrued expenses.

## FINANCIAL ANALYSIS OF THE DISTRICT, Continued

Table 1 also indicates that total net assets increased by \$6.5 million from \$397.8 million to \$404.3 million for fiscal year ended June 30, 2011. This increase consists of \$6.1 million in net assets invested in capital assets, net of related debt and \$0.5 million in unrestricted net assets. For fiscal year ended June 30, 2010, total net assets increased by \$16.1 million due to increases of \$16.3 million in net assets invested in capital assets, net of related debt, \$5.0 million in unrestricted net assets. These increases were offset by a decrease of \$5.2 million in net assets restricted for debt service. These figures reflect the District's continued emphasis on improving its capital infrastructure and prudent long range financial planning.

Table 2  
Condensed Statements of Revenues, Expenses  
and Changes in Net Assets  
(In millions of dollars)

	2011	2010	2011 vs. 2010		2009	2010 vs. 2009	
			\$ Change	% Change		\$ Change	% Change
Operating revenues							
Water sales	\$ 62.6	\$ 56.7	\$ 5.9	10.4%	\$ 56.7	\$ -	0.0%
Other operating revenues	3.4	3.5	(0.1)	-2.9%	7.3	(3.8)	-52.1%
<b>Total operating revenues</b>	<b>66.0</b>	<b>60.2</b>	<b>5.8</b>	<b>9.6%</b>	<b>64.0</b>	<b>(3.8)</b>	<b>-5.9%</b>
Nonoperating revenues							
Property Taxes	7.3	7.5	(0.2)	-2.7%	7.4	0.1	1.4%
Other nonoperating revenues	1.8	3.9	(2.1)	-53.8%	3.9	-	0.0%
LAVWMA Settlement	-	9.5	(9.5)	-	-	9.5	-
<b>Total nonoperating revenues</b>	<b>9.1</b>	<b>20.9</b>	<b>(11.8)</b>	<b>-56.5%</b>	<b>11.3</b>	<b>9.6</b>	<b>85.0%</b>
<b>TOTAL REVENUES</b>	<b>75.1</b>	<b>81.1</b>	<b>(6.0)</b>	<b>(7.4)</b>	<b>75.3</b>	<b>5.8</b>	<b>7.7</b>
Depreciation and amortization expense	12.5	11.0	1.5	13.6%	11.0	-	0.0%
Other operating expenses	57.8	57.1	0.7	1.2%	57.4	(0.3)	-0.5%
Nonoperating expenses	2.0	2.4	(0.4)	-16.7%	2.8	(0.4)	-14.3%
<b>TOTAL EXPENSES</b>	<b>72.3</b>	<b>70.5</b>	<b>1.8</b>	<b>2.6%</b>	<b>71.2</b>	<b>(0.7)</b>	<b>-1.0%</b>
<b>Income before capital contributions</b>	<b>2.8</b>	<b>10.6</b>	<b>(7.8)</b>	<b>-73.6%</b>	<b>4.1</b>	<b>6.5</b>	<b>158.5%</b>
Capital contributions	3.7	5.5	(1.8)	-32.7%	6.2	(0.7)	-11.3%
<b>Changes in net assets</b>	<b>6.5</b>	<b>16.1</b>	<b>(9.6)</b>	<b>-59.6%</b>	<b>10.3</b>	<b>5.8</b>	<b>56.3%</b>
Beginning net assets	397.8	381.7	16.1	4.2%	371.4	10.3	2.8%
<b>Ending net assets</b>	<b>\$ 404.3</b>	<b>\$ 397.8</b>	<b>\$ 6.5</b>	<b>1.6%</b>	<b>\$ 381.7</b>	<b>\$ 16.1</b>	<b>4.2%</b>

The Statements of Revenues, Expenses and Changes in Net Assets identify the various revenue and expense items which impact the change in net assets. As the information in Table 2 indicates, income before capital contributions of \$2.8 million and capital contributions of \$3.7 million were the two items which resulted in an increase of \$6.5 million in net assets by the end of the fiscal year ended June 30, 2011. In the previous fiscal year ended June 30, 2010, income before capital contributions of \$10.6 million and capital contributions of \$5.5 million were the two items which resulted in an increase of \$16.1 million in net assets.

For fiscal year ended June 30, 2011, Table 2 indicates that the District's total revenues decreased by \$6.0 million or 7.4 percent to \$75.1 million from \$81.1 million in the prior year. Operating revenues increased by \$5.8 million or 9.6 percent to \$66.0 million from \$60.2 million due to the dual effects of water demand minimally increasing compared to the prior years coupled with the effects of an annual rate increase. Nonoperating revenues decreased by \$11.8 million or 56.5% which was mainly due to the effects of the comparison to Nonoperating Revenues in 2010 that included a one-time settlement fee from Livermore

## FINANCIAL ANALYSIS OF THE DISTRICT, Continued

Amador Valley Waste Management Association (LAVMA). There was also a decrease in investment income (\$1.0 million) due to the continuing weak economy and the resultant lowered interest rates. Total expenses increased by \$1.8 million or 2.6% primarily due to an increase in purchased water cost from the San Francisco Public Utilities Commission plus operating costs of the new desalination facility.

For fiscal year ended June 30, 2010, the District's total revenues increased by \$5.8 million or 7.7 percent to \$81.1 million from \$75.3 million in the prior year. Operating revenues decreased by \$3.8 million, or 5.9 percent, due to lower demands for water which has been influenced by increasing use of voluntary conservation measures plus the effects of a sluggish economy on consumer spending. The decrease in operating revenues was offset by a significant increase of \$9.6 million, or 85.0%, in nonoperating revenues mainly due to a one-time receipt of \$9.4 million from the LAVMA (for more information, see Note 13, page 49). A decrease in investment income (\$1.6 million), and facilities connection charges (\$3.9 million), were offset by increases in fees, rental and other revenues (\$11.0 million). Investment income was lower due to declining interest rates during the fiscal year. There was a decrease in development related fees were due to slow activity in new construction projects. Total expenses decreased by \$0.7 million or 1.0 percent during the fiscal year. This was due to increasing costs in operating expenses including transmission and distribution system maintenance expenses and administration and general expenses offset by a decrease in in the supplemental water supply storage expenses.

### CAPITAL ASSETS

As of June 30, 2011, the District's investment in capital assets totaled \$341.9 million, which is an increase of \$4.1 million or 1.2 percent over the capital asset balance of \$337.8 million at June 30, 2010. The increase in capital assets was primarily the result of the completion of several capital projects during the year. In the previous fiscal year, the District's investment in capital assets increased by \$9.2 million or 2.8 percent over the capital asset balance of \$328.6 million at June 30, 2009. Capital assets include all of the District's major capital assets, including infrastructure assets, water treatment facilities, water mains, pipes and storage reservoirs, land, District headquarters and other structures, as well as vehicles and other equipment with a value of \$5,000 or more. A comparison of the District's capital assets over the past three fiscal years is presented in Table 3.

Table 3  
Capital Assets  
(In millions of dollars)

	2011	2010	2011 vs. 2010		2009	2010 vs. 2009	
			\$ Change	% Change		\$ Change	% Change
Land	\$ 9.7	\$ 9.7	\$ -	0.0%	\$ 9.7	\$ -	0.0%
Construction in progress	12.3	21.6	(9.3)	-43.1%	26.6	(5.0)	-18.8%
Source of supply	50.1	50.1	-	0.0%	43.9	6.2	14.1%
Pumping plant	20.2	19.6	0.6	3.1%	19.2	0.4	2.1%
Water treatment	151.4	138.1	13.3	9.6%	129.0	9.1	7.1%
Transmission and distribution	244.9	235.5	9.4	4.0%	228.4	7.1	3.1%
General	37.3	35.9	1.4	3.9%	34.7	1.2	3.5%
Supplemental water supply storage	20.8	20.9	(0.1)	-0.5%	20.9	-	0.0%
Subtotal	546.7	531.4	15.3	2.9%	512.4	19.0	3.7%
Less accumulated depreciation/amortization	(204.8)	(193.6)	(11.2)	5.8%	(183.8)	(9.8)	5.3%
Capital assets, net	\$ 341.9	\$ 337.8	\$ 4.1	1.2%	\$ 328.6	\$ 9.2	2.8%

## **CAPITAL ASSETS, Continued**

There were several capital projects completed during the fiscal year 2011, including the Newark Desalination Facility - Phase 2 Expansion, Main Relocations for Kato Road Grade Separation, Niles Boulevard Pipeline, and scheduled computer system and network upgrades. In addition to these completed projects, there were also major capital projects that were under construction or in progress as of June 30, 2011. Those projects included Mowry and Peralta-Tyson (PT) Wellfields - Building Replacements and Well Rehabilitation, Main Relocations for San Francisco Public Utilities Commission Bay Division Pipelines (SFPUC BDPL) #3 and #4, Water Treatment Plant #1 (WTP1) Modifications, Water Treatment Plant #2 (WTP2) Liquid Oxygen (LOX) Conversion and Process Upgrades, Headquarters Facility Building Expansion, Tank and Reservoir Seismic Upgrades, Fishery Studies, and various water main replacements, upgrades and relocations.

Major completed projects contributing to the increase in capital assets during fiscal year 2010 include Alameda Reservoir Water Quality Enhancement Project - Phase 2, Mayhew Reservoir lining replacement, Vineyard Heights tank seismic upgrades, Bunting Pond Fish Screen Project, Aquifer Reclamation Project (ARP) well upgrades, Rubber Dam 2 Decommissioning, ARP to Desal pipeline Phase 2, various SFPUC BDPL #5 related pipeline relocations, and scheduled computer system and network upgrades.

Additional information on the District's capital assets and construction commitments is provided in Note 5 (page 31) of the financial statements.

Projects scheduled for the upcoming fiscal year 2012 include Mowry and Peralta-Tyson (PT) Wellfield improvements and equipment replacements, upgrades at Water Treatment Plant No. 2 and PT Blending Facilities, tank, reservoir and rubber dam seismic upgrades, Supervisory Control and Data Acquisition (SCADA) system improvements, main and service line replacements, upgrades, and relocations, headquarters facility building modifications, fish screen and fish ladder design and construction projects at various groundwater recharge facilities and rubber dams, J.D. Edwards systems upgrade, projects identified in the District's information systems master plan update, and replacement of the District's customer information and utility billing system.

## **LONG-TERM DEBT**

As of June 30, 2011, the District had \$46.3 million in outstanding debt compared to \$48.3 million on June 30, 2010 and \$52.7 million on June 30, 2009. The decreases in outstanding debt primarily represent principal payments of \$2.0 million and \$2.5 million, respectively in fiscal years ended June 30, 2011 and June 30, 2010. Revenues certificates of participation in the amount of \$25 million were issued in November 2003 to fund costs associated with the construction of a desalination facility and associated pipelines and upgrades to the Mission San Jose Water Treatment Plant. The outstanding debt for the fiscal year ended June 30, 2010 also included a note payable which was issued in 1993 to fund property acquisition costs and was being paid in annual installments. The final payment of \$59 was made in August 2010. In October 2009, the District issued \$26.3 million of 2009 Water System Refunding Revenue Bonds at a lower interest rate to refund the 1998 outstanding refunding bonds.

In April 2009, Standard and Poor's, a nationally recognized independent credit rating agency, upgraded the District's bond rating from AA- to AAA, the highest rating available. The AAA rating and low bond refunding rates enabled the District to refinance its outstanding 1998 refunding revenue bonds in October 2009 and to achieve an overall net present value savings in remaining debt service payments in excess of \$3.98 million. The rating upgrade was in part the result of recognition of the District's diverse and ample water supply and the District's positive financial performance.

Additional information on the District's long-term debt is provided in Note 7 (page 35) of the financial statements.



## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The Board of Directors adopted the District's two-year budget on June 9, 2011. The approval of a two-year budget provides funding for the District's operating, capital and debt service costs for fiscal years 2011 and 2012. The District's water rates are reviewed by staff and the Board of Directors on an annual basis. Water rates were last adjusted on March 2011 with the implementation of an increase of 8.0 percent. Rate increases over the past five years have been minimal with the District's rates remaining in the lower one-third of thirty other water agencies surveyed in the Bay Area.

The District is anticipating issuing approximately \$24 million in new revenue bonds in early 2012. The new bond proceeds are planned to be used for capital projects related to seismic reliability, water service and fire flows, water supply and production reliability, water quality, and environmental stewardship.

In addition the District is considering the possibility of issuing \$25 million in refunding bonds to refinance its 2003 Certificates of Participation if market conditions prove to be favorable.

## **ADDITIONAL FINANCIAL INFORMATION**

This financial report is designed to provide the District's customers, investors and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the Alameda County Water District's Manager of Finance at P.O. Box 5110, Fremont, CA 94537.

## **BASIC FINANCIAL STATEMENTS**

Alameda County Water District  
 Statements of Net Assets  
 Business-Type Activity - Enterprise Fund  
 June 30, 2011 and 2010  
 (In thousands)

	2011	2010
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and investments (Note 3)	\$ 96,642	\$ 95,947
Customer and other accounts receivable, net (Note 4)	3,765	5,097
Accrued unbilled revenue	5,713	4,417
Taxes receivable	1,354	1,262
Grants receivable	1,320	1,795
Interest receivable	625	755
Material and supplies	2,479	2,742
Prepaid items	26	-
Total unrestricted assets	111,924	112,015
Restricted cash and investments (Note 3)	5,378	5,388
Total current assets	117,302	117,403
<b>Noncurrent assets:</b>		
Debt issuance costs	634	681
Net other postemployment benefit asset (Note 11)	1,943	2,045
<b>Capital assets: (Note 5)</b>		
Nondepreciable	21,990	31,295
Depreciable, net	319,860	306,484
Total capital assets	341,850	337,779
<b>Total noncurrent assets</b>	344,427	340,505
<b>Total assets</b>	461,729	457,908
<b>LIABILITIES</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued expenses (Note 6)	5,078	5,470
Accrued payroll and related liabilities (Note 6)	2,516	2,941
Contractor and customer deposits	3,025	2,853
Interest payable	154	157
Deferred revenue	91	92
Long-term debt - due within one year (Note 7)	1,961	1,979
<b>Total current liabilities</b>	12,825	13,492
<b>Noncurrent liabilities:</b>		
Accrued payroll and related liabilities (Note 6)	182	236
Long-term debt - due in more than one year (Note 7)	44,376	46,337
<b>Total noncurrent liabilities</b>	44,558	46,573
<b>Total liabilities</b>	57,383	60,065
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	298,301	292,179
Restricted for debt service	2,436	2,515
Unrestricted	103,609	103,149
<b>Total net assets</b>	\$ 404,346	\$ 397,843

See accompanying notes to basic financial statements.

Alameda County Water District  
Statements of Revenues, Expenses and Changes in Net Assets  
Business-Type Activity - Enterprise Fund  
For the years ended June 30, 2011 and 2010  
(In thousands)

	2011	2010
<b>OPERATING REVENUES:</b>		
Water sales	\$ 62,596	\$ 56,744
Facilities connection charges	1,892	1,768
Fees and rental	610	787
Other	949	950
<b>Total operating revenues</b>	<b>66,047</b>	<b>60,249</b>
<b>OPERATING EXPENSES:</b>		
Sources of supply:		
Water purchases	14,402	14,128
Pumping	3,116	2,592
Other	8,819	7,511
<b>Total sources of supply</b>	<b>26,337</b>	<b>24,231</b>
Water treatment	12,464	11,297
Transmission and distribution	11,343	11,997
Administration of customer accounts	1,507	1,252
Administration and general	6,170	8,335
Depreciation and amortization	12,462	10,942
<b>Total operating expenses</b>	<b>70,283</b>	<b>68,054</b>
<b>Operating loss</b>	<b>(4,236)</b>	<b>(7,805)</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>		
Investment income	1,416	2,448
Property taxes	7,256	7,479
LAVWMA settlement (Note 13)	-	9,464
Other settlements	450	1,470
Loss on disposal of capital assets	(69)	(75)
Interest expenses	(1,991)	(2,298)
<b>Total nonoperating revenues (expenses)</b>	<b>7,062</b>	<b>18,488</b>
Income before capital contributions	2,826	10,683
Capital contributions	3,677	5,491
Increase in net assets	6,503	16,174
<b>NET ASSETS:</b>		
Beginning of year	397,843	381,669
End of year	<b>\$ 404,346</b>	<b>\$ 397,843</b>

See accompanying notes to basic financial statements.

Alameda County Water District  
 Statements of Cash Flows  
 Business-Type Activity - Enterprise Fund  
 For the years ended June 30, 2011 and 2010  
 (In thousands)

	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash receipts from customers	\$ 65,981	\$ 61,104
Cash receipts from polybutylene settlement	274	258
Cash receipts from others	450	10,934
Cash payments to suppliers for goods and services	(25,309)	(26,479)
Cash payments to employees for services	(32,945)	(30,394)
<b>Net cash provided by operating activities</b>	<b>8,451</b>	<b>15,423</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Property taxes received	7,164	6,217
<b>Net cash provided by noncapital financing activities</b>	<b>7,164</b>	<b>6,217</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Acquisitions of capital assets	(13,532)	(18,294)
Capital grants received restricted for capital purposes	673	2,254
Proceeds from sale of assets	309	191
Refunding revenue bonds proceeds	-	3,010
Bond issuance costs paid	-	(237)
Payment to refunded bond escrow agent	-	(5,371)
Principal paid on debt	(2,049)	(2,465)
Interest paid on debt	(1,877)	(1,661)
<b>Net cash used in capital and related financing activities</b>	<b>(16,476)</b>	<b>(22,573)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sale of investments	25,819	43,385
Purchases of investments	(27,597)	(49,022)
Investment income received	2,319	2,669
<b>Net cash provided by (used in) investing activities</b>	<b>541</b>	<b>(2,968)</b>
<b>Net change in cash and cash equivalents</b>	<b>(320)</b>	<b>(3,901)</b>
<b>CASH AND CASH EQUIVALENTS:</b>		
Beginning of year	17,353	21,254
End of year	<b>\$ 17,033</b>	<b>\$ 17,353</b>

See accompanying notes to basic financial statements.

Alameda County Water District  
 Statements of Cash Flows  
 Business-Type Activity - Enterprise Fund  
 For the years ended June 30, 2011 and 2010  
 (In thousands)

	2011	2010
<b>RECONCILIATION TO STATEMENTS OF NET ASSETS:</b>		
Cash and investments	\$ 96,642	\$ 95,947
Restricted cash and investments	5,378	5,388
Less investments not meeting the definition of cash equivalents	(84,987)	(83,982)
<b>Total cash, restricted cash and investments</b>	<b>\$ 17,033</b>	<b>\$ 17,353</b>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Operating loss	\$ (4,236)	\$ (7,805)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation and amortization	12,462	10,942
Other nonoperating revenues	450	10,934
Changes in operating assets and liabilities		
Customer and other accounts receivable	1,058	(27)
Accrued unbilled receivable	(1,296)	(69)
Materials and supplies	263	61
Prepaid items	(26)	92
Polybutylene settlement receivable	274	258
Net other postemployment benefit asset	102	363
Accounts payable and accrued expenses	(293)	(589)
Accrued payroll and related liabilities	(479)	312
Contractor and customer deposits	172	951
Net cash provided by operating activities	<b>\$ 8,451</b>	<b>\$ 15,423</b>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
<b>NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Amortization of premiums and loss on debt refunding	\$ 69	\$ 44
Payment to refunded bond escrow from bond proceeds	-	27,591
Defeasance of refunded revenue bonds from bond escrow	-	(29,594)
Capital contributions	3,478	2,369
Changes in capital assets and liabilities:		
Grants receivable	475	(675)
Retention payable	(99)	(261)
Deferred revenue	(1)	(193)
<b>NONCASH INVESTING ACTIVITIES:</b>		
Change in fair value of investments	773	49

See accompanying notes to basic financial statements.

Alameda County Water District  
 Statements of Plan Net Assets  
 Fiduciary Fund - Other Post Employment Benefit Trust Fund  
 June 30, 2011 and 2010  
 (In thousands)

	2011	2010
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and investments (Note 3)	\$ 5,639	\$ 4,546
Interest receivable	1	71
Other assets	-	4
<b>Total assets</b>	<u>5,640</u>	<u>4,621</u>
<b>NET ASSETS</b>		
Held in trust for other post employment benefits	<u>\$ 5,640</u>	<u>\$ 4,621</u>

See accompanying notes to basic financial statements.

Alameda County Water District  
 Statements of Changes in Plan Net Assets  
 Fiduciary Fund - Other Post Employment Benefit Trust Fund  
 For the years ended June 30, 2011 and 2010  
 (In thousands)

	2011	2010
<b>ADDITIONS:</b>		
Investment income	\$ 33	\$ 116
Employer contributions	2,658	2,406
<b>Total additions</b>	<b>2,691</b>	<b>2,522</b>
<b>DEDUCTIONS:</b>		
Benefit payments	1,672	1,397
Increase in net assets	1,019	1,125
<b>NET ASSETS HELD IN TRUST</b>		
<b>FOR OTHER POST EMPLOYMENT BENEFITS:</b>		
Beginning of year	4,621	3,496
End of year	<b>\$ 5,640</b>	<b>\$ 4,621</b>

See accompanying notes to basic financial statements.



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**Alameda County Water District**  
**Notes to Basic Financial Statements**  
**For the years ended June 30, 2011 and 2010**  
**(Dollars in thousands)**

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**1. DESCRIPTION OF THE REPORTING ENTITY**

*A. Description of Operations*

The Alameda County Water District (the District) was organized under the California Water Act of 1913 and is governed by a five-person Board of Directors. Principal functions of the District include the importation, conservation, and distribution of water. District operations are conducted under the State Water Code of California.

*B. Reporting Entity*

The financial reporting entity consists of the Alameda County Water District (the primary government) and its component unit, which is discussed below. Component units are legally separate organizations for which the Board of Directors is financially accountable, or other organizations whose nature and significant relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete.

As required by accounting principles generally accepted in the United States (GAAP), these basic financial statements present the District and its component unit, entities for which the District is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the District's operations and data from these units are combined with data of the District. The following entity is reported as a blended component unit:

- The Alameda County Water District Public Facilities Financing Corporation (the Corporation) was established in 1992 to issue debt for the benefit of the District.

Additional financial data for the Alameda County Water District Public Facilities Financing Corporation may be obtained from the Alameda County Water District office at 43885 South Grimmer Boulevard, Fremont, California, 94537.

The financial activities of the Benefit Trust for the Alameda County Water District (OPEB Trust) are blended in the basic financial statements because the OPEB Trust exclusively serves the employees of the District. The OPEB Trust is administered by the OPEB Trust Committee. The Committee is composed of the General Manager, Manager of Finance, Manager of Administrative Services, Financial Services Manager and Supervising Human Resources Analyst and has plenary authority to administer the OPEB Trust.

**Alameda County Water District**  
**Notes to Basic Financial Statements**  
**For the years ended June 30, 2011 and 2010**  
**(Dollars in thousands)**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Basis of Presentation and Measurement Focus**

The basic financial statements provide information about the District's enterprise fund and OPEB trust fund. Separate statements for each fund category - enterprise and fiduciary - are presented. The basic financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. On an accrual basis, revenues from operating activities are recognized in the fiscal year that the operations were provided; revenues from property taxes are recognized in the fiscal year for which the taxes are levied and revenue from investments is recognized when earned.

**Enterprise Fund** - The accounts of the District are reported in a proprietary fund type, specifically, an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net assets, revenues and expenses. Enterprise Funds account for activities (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (ii) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The receivables have been recorded as revenue and provisions have been made for uncollectible amounts. The District has elected under Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board, or any Accounting Research Bulletins issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements. The GASB periodically updates its codification of the existing GASB Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The District has elected not to follow subsequent private-sector guidance of FASB after November 30, 1989.

**Other Post Employment Benefit Trust Fund** accounts for the accumulated resources to be used for other post employment benefit (OPEB) payments.

**Alameda County Water District**  
**Notes to Basic Financial Statements**  
**For the years ended June 30, 2011 and 2010**  
**(Dollars in thousands)**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

***B. Cash and Investments***

The District's cash equivalents are considered to be cash on hand, demand deposits, and highly liquid investments with original maturity of three months or less from the date of acquisition.

In accordance with GASB Statement No. 40, *Deposit and Investment Disclosures - an Amendment of GASB Statement No. 3*, certain disclosure requirements for deposits and investment risks were made in the following areas:

- Interest Rate Risk
- Credit Risk
  - Overall
  - Custodial Credit Risk
  - Concentrations of Credit Risk

In addition, other disclosures are specified including use of certain methods to present deposits and investments, highly sensitive investments, credit quality at year-end and other disclosures.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

Restricted investments, which consist primarily of U.S. government securities designated for specific projects and required to be segregated pursuant to debt covenants, and restricted cash, which consists primarily of money market accounts, are presented as restricted cash and investments.

***C. Accrued Unbilled Revenue***

During the year, customer water meters are read and billed on monthly or bi-monthly periods. Because not every meter is read on the same date, revenue for water distributed but not yet billed is accrued at fiscal year-end to match revenues with related expenses.

***D. Materials and Supplies***

Materials and supplies inventory consisted principally of spare parts that are recorded when purchased and expensed when used and is recorded at weighted average cost.

**Alameda County Water District**  
**Notes to Basic Financial Statements**  
**For the years ended June 30, 2011 and 2010**  
**(Dollars in thousands)**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

*E. Capital Assets*

The cost of additions to the utility plant and major replacements of retired units of property is capitalized. The District defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Cost includes direct labor, outside services, materials and transportation, employee fringe benefits and overhead. The District was not required to capitalize interest during fiscal years 2011 and 2010. The cost and accumulated depreciation of property sold or retired is deducted from capital assets, and any profit or loss resulting from the disposal is credited or charged in the nonoperating section of the statements of revenues, expenses and changes in net assets. The cost of current repairs, maintenance, and minor replacements is charged to expense. Construction in progress primarily relates to upgrades of existing facilities.

Depreciation has been provided over estimated useful lives of the assets using the straight-line method. The estimated useful lives are as follows:

Structures, reservoirs, pumps and other improvements	20-50 years
Office furniture, tools, shop furniture, lab furniture and equipment	10 years
Motor vehicles	5 years

*F. Customer Deposits*

Customer deposits for new customer installation jobs are retained by the District and are reported as a current liability. The customer deposit is applied to the cost of the job when the job is complete.

*G. Long-Term Debt and Related Costs*

Long-term debt is reported at face value, net of applicable premium, discounts and deferred loss on refunding. Costs related to the issuance of debt are deferred and amortized over the lives of the various debt issues and are shown as an asset on the Statement of Net Assets. Losses occurring from advance refunding of debt are deferred and amortized as interest expense over the remaining life of the old bonds, or the life of the new bonds, whichever is shorter.

*H. Operating Revenues and Expenses*

Operating revenues and expenses consisted of those revenues that result from the ongoing principal operations of the District. Operating revenues consisted primarily of charges for services. Nonoperating revenues and expenses consisted of those revenues and expenses that are related to financing and investing type of activities and resulted from non-exchange transactions or ancillary activities. When an expense is incurred for purposes for which there are both restricted and unrestricted net assets available, it is the District's policy to apply those expenses to restricted net assets to the extent such are available and then to unrestricted net assets.

**Alameda County Water District**  
**Notes to Basic Financial Statements, Continued**  
**For the years ended June 30, 2011 and 2010**  
**(Dollars in thousands)**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**I. Property Tax Revenue**

Assessed values are determined annually by the Alameda County Assessor (the County) as of January 1, and become a lien on real property as of the January 1. Taxes are due November 1, and February 1 and are delinquent if not paid by December 10 and April 10, respectively. The County is permitted by State Law (Proposition 13) to levy taxes at 1% of the full market value of the property (at the time of purchase) and can only increase the property's assessed valuation by reappraisals of property due to new construction or change. The County can also increase the property's assessed valuation for cost of living increases up to a maximum of 2% per year. Property taxes collected by the taxing authority, but not remitted to the District at year-end, are accrued as revenue and included as taxes receivable. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied.

**J. Capital Contributions**

Transmission and distribution system assets contributed to the District by installers are capitalized at the installers' costs, which approximated fair value at the time of the District's acquisition, and recorded as capital contributions when received. In addition, the District, at various times, receives Federal and State grants and other funds from external sources for construction and/or rehabilitation of its facilities. The funds are also reported as capital contributions on the statement of revenues, expenses and changes in net assets.

**K. Net Assets**

In the Statements of Net Assets, net assets are classified in the following categories:

Invested in Capital Assets, Net of Related Debt - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted- This amount is restricted by external creditors, grantors, contributors, laws or regulations of other governments.

Unrestricted- This amount is all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets."

**Alameda County Water District**  
**Notes to Basic Financial Statements, Continued**  
**For the years ended June 30, 2011 and 2010**  
**(Dollars in thousands)**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

*L. Use of Estimates*

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. In addition, estimates affect the reported amount of expenses. Actual results could differ from these estimates and assumptions.

*M. Reclassification*

Certain reclassifications have been made to the prior year financial statements in order to conform to the current year presentation.

*N. Implementation of New GASB Pronouncements*

In 2010, the District adopted the following new accounting pronouncement:

- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* - This statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. Upon adoption of GASB 51, the District identified supplemental water supply storage as intangible assets and accordingly reclassified these assets as capital assets.

The District is currently analyzing its accounting practices to determine the potential impact on the financial statements for the following GASB Statements:

- In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This Statement addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. Common examples of SCAs include long-term arrangements between a transferor (a government) and an operator (governmental or nongovernmental entity) in which the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset in exchange for significant consideration and the operator collects and is compensated by fees from third parties. Application of this Statement is effective for the District's fiscal year ending June 30, 2013.

**Alameda County Water District**  
**Notes to Basic Financial Statements, Continued**  
**For the years ended June 30, 2011 and 2010**  
**(Dollars in thousands)**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

*N. Implementation of New GASB Pronouncements (Continued)*

- In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*. GASB Statement No. 61 is designed to improve financial reporting for governmental entities by amending the requirements of GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, to better meet the needs of users and address reporting entity issues that have come to light since these statements were issued in 1991 and 1999, respectively. GASB Statement No. 61 improves the information presented about the financial reporting entity, which is comprised of a primary government and related entities (component units) and amends the criteria for blending – reporting component units as if they were part of the primary government – in certain circumstances. Application of this Statement is effective for the District's fiscal year ending June 30, 2013.
- In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The requirements of this Statement are effective for the District's fiscal year ending June 30, 2013.
- In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. This Statement also amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The requirements of this Statement are effective for the District's fiscal year ending June 30, 2013.

**3. CASH AND INVESTMENTS**

The District maintains an internal cash and investment pool in a single enterprise fund. Certain restricted funds that are held and invested by independent outside custodians through contractual agreements are not pooled, and are reported as cash with fiscal agents. Restricted investments are the reserve funds required by the District's debt issuance holders in order to secure the District's obligation to pay the principal and interest due for one year. In addition, the District also segregated cash and investments in an OPEB Trust. These investments are restricted to provide for the future payment of other postemployment benefits and related expenses.



**Alameda County Water District**  
**Notes to Basic Financial Statements, Continued**  
**For the years ended June 30, 2011 and 2010**  
**(Dollars in thousands)**

**3. CASH AND INVESTMENTS, Continued**

*A. Summary of Cash and Investments*

	June 30, 2011			June 30, 2010		
	Enterprise Fund	Trust Fund	Total	Enterprise Fund	Trust Fund	Total
Cash and bank deposits	\$ 15,160	\$ 5,639	\$ 20,799	\$ 12,588	\$ 1,178	\$ 13,766
Investments	81,482	-	81,482	83,359	3,368	86,727
Unrestricted cash and investments	96,642	5,639	102,281	95,947	4,546	100,493
Restricted cash and bank deposits	222	-	222	146	-	146
Restricted investments	5,156	-	5,156	5,242	-	5,242
Restricted cash and investments	5,378	-	5,378	5,388	-	5,388
Total	\$ 102,020	\$ 5,639	\$ 107,659	\$ 101,335	\$ 4,546	\$ 105,881

*B. Authorized Investments*

The District's investment policy is adopted annually by the District's Board in accordance with California Government Code Section 53601, and has as its objectives the following (in order of priority):

- **Safety:** Safety of principal is the foremost objective of the investment program. Investments of the District shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required in the portfolio's composition.
- **Liquidity:** The portfolio shall remain sufficiently liquid to meet all operating requirements, which might be reasonably anticipated. Liquidity refers to the ability to sell an investment at any given moment with a minimal chance of losing some portion of principal or interest.
- **Yield:** The portfolio shall be designed to attain a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and the cash flow characteristics of the portfolio.

Under provisions of the District's investment policy, the District may invest in the following types of investments:

- The Local Agency Investment Fund (LAIF) maintained by the State of California.
- Obligations issued by agencies or instrumentalities of the U.S. Government.
- Bankers' acceptances with a term not to exceed 180 days.
- Prime commercial paper with a term not to exceed 270 days and the highest rating issued by Moody's Investors Service or Standard & Poor's Corporation, on the date of purchase.

**Alameda County Water District**  
**Notes to Basic Financial Statements, Continued**  
**For the years ended June 30, 2011 and 2010**  
**(Dollars in thousands)**

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**3. CASH AND INVESTMENTS, Continued**

*B. Authorized Investments, Continued*

- Negotiable certificates of deposit issued by federally chartered or state-chartered banks or associations.
- Medium-term notes issued by corporations organized and operating in the United States.
- United States Treasury notes, bonds, bills or other obligations for which full faith and credit of the United States are pledged for payment.
- The California Asset Management Program (CAMP).

A three-year maximum maturity for each investment is allowed unless an extension of maturity is granted by the District Board.

In accordance with Section 53651 of the California Government Code, the District cannot invest in inverse floaters, range notes, or interest-only strips that are derived from a pool of mortgages, or in any security that could result in zero interest accrual if held to maturity. The limitation does not apply to investments in shares of beneficial interest issued under the Investment Company Act of 1940 that are authorized investments under Section 53601 of the California Government Code.

Pursuant to the OPEB Trust document, the OPEB Trust Committee or its appointed investment manager(s) will direct the OPEB Trustee on its investments. At the direction of the OPEB Trust Committee or its appointed investment manager(s), the Trustee may sell, write options on, convey or transfer, invest and reinvest any part thereof in each and every kind of property, whether real, personal or mixed, tangible or intangible, whether income or non-income producing and wherever situated, including but not limited to, time deposits, shares of common and preferred stock, mortgages, bonds, leases, notes, debentures, equipment or collateral trust certificates, rights, warrants, convertible or exchangeable securities and other corporate, individual or government securities or obligations, annuity, retirement or other insurance contracts, or mutual funds.

*C. Deposits*

The carrying amount of the District's demand deposits were a positive balance of \$575 and a positive balance of \$703 and the bank balances were \$900 and \$920 at June 30, 2011 and 2010, respectively. The difference between the bank balance and the carrying amount represents outstanding checks and deposits in transit. The District's bank balances were insured by the Federal Deposit Insurance Corporation (FDIC) and if over the FDIC limit collateralized by the pledging financial institutions as required by California Government Code at June 30, 2011.

The California Government Code requires California banks and savings and loans associations to secure the District's deposits not covered by federal depository insurance by pledging government securities as collateral. The fair value of pledged securities must equal at least 110% of the District's deposits or 150% of mortgage-backed collateral. The collateral must be held at the pledging bank's trust department or other bank, acting as the pledging bank's agent, in the District's name.

**Alameda County Water District**  
**Notes to Basic Financial Statements, Continued**  
**For the years ended June 30, 2011 and 2010**  
**(Dollars in thousands)**

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**3. CASH AND INVESTMENTS, Continued**

*D. Investments*

The District's cash and investments are invested pursuant to investment policy guidelines established by the Board of Directors. The policy addresses the soundness of financial institutions in which the District deposits funds and the types of investments instruments as permitted by the California Government Code.

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) which is regulated by California Government Code and is under the oversight of the Treasurer of the State of California. The value of the pool shares in LAIF, which may be withdrawn at anytime, is determined on an amortized cost basis, which is different from the fair value of the District's position in the pool. The District's investments with LAIF at June 30, 2011 and 2010 included a portion of the pool funds invested in Structured Notes and Asset-Backed Securities. These investments included the following:

**Structured Notes** are debt securities (other than asset-backed securities) whose cash-flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.

**Asset-Backed Securities, the bulk of which are mortgage-backed securities**, entitle their purchasers to receive a share of the cash flows from a pool of assets, such as principal and interest repayments from a pool of mortgages (such as CMO's) or credit card receivables.

As of June 30, 2011 and 2010, the District had \$16,225 and \$15,250, respectively, invested in LAIF, which had invested 5.01% and 5.42% of the pooled investment funds in Structured Notes and Asset-Backed Securities. The District valued its investments in LAIF as of June 30, 2011 and 2010, by multiplying its account balance with LAIF times a fair value factor determined by LAIF. This fair value factor was determined by dividing all LAIF participants' total aggregate fair value by total aggregate amortized cost resulting in a factor of 1.001576470 and 1.001643776 as of June 30, 2011 and 2010, respectively.

As of June 30, 2011 and 2010, the District's investment in the CAMP pool was \$10 and \$1,254, respectively. The total amount invested by all public agencies in CAMP at that date was \$1,993,248 and \$2,468,346, respectively. A board of five trustees who are officials or employees of public agencies has oversight responsibility for CAMP. The value of the pool shares in CAMP, which may be withdrawn at anytime, is determined on an amortized cost basis, which is different from the fair value of the District's position in the pool.

**Alameda County Water District**  
**Notes to Basic Financial Statements, Continued**  
**For the years ended June 30, 2011 and 2010**  
**(Dollars in thousands)**

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**3. CASH AND INVESTMENTS, Continued**

*E. Investment Risks*

*Interest Rate Risk.* As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy provides that final maturities of securities cannot exceed three years. Specific maturities of investments depend on liquidity needs.

*Credit Risk.* Credit risk is the risk that a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. According to the District's investment policy, no more than 25% of the total portfolio may be invested in commercial paper, no more than 30% of the total portfolio may be invested in medium term corporate notes and no more than 40% of the total portfolio may be invested in bankers' acceptances other than the U.S. Government, its agencies and instrumentalities and LAIF. If a security is downgraded by either Moody's or S&P to a level below the minimum quality required by the District, the District will determine whether to retain or liquidate the security based upon criteria set forth in the District's Investment Policy.

*Custodial Credit Risk.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counter party, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investments, with the exception of the money market funds and LAIF, are held by a third-party custodian Bank of the West Treasury Operations.

**Alameda County Water District**  
**Notes to Basic Financial Statements, Continued**  
**For the years ended June 30, 2011 and 2010**  
**(Dollars in thousands)**

**3. CASH AND INVESTMENTS, Continued**

*F. Summary of Cash and Investments*

As of June 30, 2011, the District had the following investments and maturities:

Investment Type	Credit Ratings	Fair Value	Maturities (in years)		
			1 year or less	1-2 years	2-3 years
Enterprise Fund:					
Unrestricted cash and investments:					
U.S. Government Agencies securities:					
Federal Farm Credit Bank	Aaa/AAA	\$ 13,712	\$ -	\$ 9,701	\$ 4,011
Federal Home Loan Bank	Aaa/AAA	22,046	4,054	11,717	6,275
Medium-term notes:					
Arden Realty Limited Partnership	Aa2/AA+	2,014	2,014	-	-
Berkshire Hathaway Finance Corp.	Aa2/AA-	8,071	1,156	4,107	2,808
General Electric Capital Corp.	Aa2/AA+	10,358	3,084	7,274	-
MassMutual Global Funding	Aa2/AA	1,028	-	1,028	-
Pfizer Inc.	A1/AA	4,114	4,114	-	-
Wells Fargo & Co.	A1/AA-	3,904	-	3,904	-
Local Agency Investment Funds	Unrated/Unrated	16,225	16,225	-	-
California Asset Management Program	Unrated/AAAm	10	10	-	-
Total unrestricted investments		81,482	30,657	37,731	13,094
Non-negotiable certificates of deposit with:					
Bank of the West	n/a	2,085	1,085	1,000	-
JP Morgan Chase	n/a	3,000	-	3,000	-
Fremont Bank	n/a	7,500	7,500	-	-
U.S. Bank	n/a	2,000	2,000	-	-
Demand deposits	n/a	575	575	-	-
Total unrestricted deposits with banks		15,160	11,160	4,000	-
Total unrestricted cash and investments		\$ 96,642	\$ 41,817	\$ 41,731	\$ 13,094
Restricted investments:					
First American Treasury Obligation Fund	Aaa/AAAm	\$ 222	\$ 222	\$ -	\$ -
Federal Home Loan Bank	Aaa/AAA	5,156	2,633	2,523	-
Total restricted investments		\$ 5,378	\$ 2,855	\$ 2,523	\$ -
OPEB Trust Fund:					
Cash and investments:					
Non-negotiable certificates of deposit with:					
Bank of America	n/a	\$ 4,600	\$ 4,600	\$ -	\$ -
Demand deposits	n/a	1,039	1,039	-	-
Total cash and investments		\$ 5,639	\$ 5,639	\$ -	\$ -

**Alameda County Water District**  
**Notes to Basic Financial Statements, Continued**  
**For the years ended June 30, 2011 and 2010**  
**(Dollars in thousands)**

**3. CASH AND INVESTMENTS, Continued**

*F. Summary of Cash and Investments, Continued*

As of June 30, 2010, the District had the following investments and maturities:

Investment Type	Credit Ratings Moody's/S&P	Fair Value	Maturities (in years)		
			1 year or less	1-2 years	2-3 years
Enterprise Fund:					
Unrestricted cash and investments:					
U.S. Government Agencies securities:					
Federal Farm Credit Bank	Aaa/AAA	\$ 13,455	\$ 5,160	\$ -	\$ 8,295
Federal Home Loan Bank	Aaa/AAA	23,797	8,858	4,218	10,721
Medium-term notes:					
Arden Realty Limited Partnership	Aa2/AA+	2,063	-	2,063	-
Berkshire Hathaway Finance Corp.	Aa2/AA-	2,658	-	1,183	1,475
General Electric Capital Corp.	Aa2/AA+	10,435	4,128	3,174	3,133
JPMorgan Chase & Co.	Aa3/A+	1,013	1,013	-	-
MassMutual Global Funding	Aa2/AA	1,044	-	-	1,044
Pfizer Inc.	A1/AA	4,220	-	4,220	-
Wells Fargo & Co.	Aa2/AA-	8,170	4,210	-	3,960
Local Agency Investment Funds	Unrated/Unrated	15,250	15,250	-	-
California Asset Management Program	Unrated/AAAm	1,254	1,254	-	-
Total unrestricted investments		<u>83,359</u>	<u>39,873</u>	<u>14,858</u>	<u>28,628</u>
Non-negotiable certificates of deposit with:					
Fremont Bank	n/a	9,885	2,385	7,500	-
U.S. Bank	n/a	2,000	-	2,000	-
Demand deposits	n/a	703	703	-	-
Total unrestricted deposits with banks		<u>12,588</u>	<u>3,088</u>	<u>9,500</u>	<u>-</u>
Total unrestricted cash and investments		<u>\$ 95,947</u>	<u>\$ 42,961</u>	<u>\$ 24,358</u>	<u>\$ 28,628</u>
Restricted investments:					
Government securities money market funds	Aaa/AAAm	\$ 146	\$ 146	\$ -	\$ -
Federal Home Loan Bank	Aaa/AAA	5,242	-	2,716	2,526
Total restricted investments		<u>\$ 5,388</u>	<u>\$ 146</u>	<u>\$ 2,716</u>	<u>\$ 2,526</u>
OPEB Trust Fund:					
Cash and investments:					
Medium-term notes:					
General Electric Capital Corp.	Aa2/AA+	\$ 3,368	\$ 3,368	\$ -	\$ -
Non-negotiable certificates of deposit with:					
Bank of the West	n/a	1,170	1,170	-	-
Demand deposits	n/a	8	8	-	-
Total cash and investments		<u>\$ 4,546</u>	<u>\$ 4,546</u>	<u>\$ -</u>	<u>\$ -</u>

**Alameda County Water District**  
**Notes to Basic Financial Statements, Continued**  
**For the years ended June 30, 2011 and 2010**  
**(Dollars in thousands)**

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**4. CUSTOMER AND OTHER ACCOUNTS RECEIVABLE**

Customer and other accounts receivable were as follows:

	<u>2011</u>	<u>2010</u>
Utility service	\$ 3,090	\$ 3,371
Groundwater replenishment	49	52
Current portion of polybutylene settlement	-	274
Other	641	1,417
Allowance for doubtful accounts	<u>(15)</u>	<u>(17)</u>
 Total customer and other accounts receivable, net	 <u>\$ 3,765</u>	 <u>\$ 5,097</u>

Other accounts receivable balance of \$641 and \$1,417 for June 30, 2011 and 2010, respectively, represents accrued receivables for customer installation jobs and other miscellaneous receivables.

**Alameda County Water District**  
**Notes to Basic Financial Statements, Continued**  
**For the years ended June 30, 2011 and 2010**  
**(Dollars in thousands)**

**5. CAPITAL ASSETS**

*A. Summary of Capital Asset Activity*

Capital asset activity for the year ended June 30, 2011 was as follows:

	Balance July 1, 2010	Additions	Retirements	Transfers	Balance June 30, 2011
Capital assets, not being depreciated/amortized:					
Land	\$ 9,725	\$ -	\$ -	\$ -	\$ 9,725
Construction in progress	21,570	14,364	(69)	(23,600)	12,265
Capital assets, not being depreciated/amortized	31,295	14,364	(69)	(23,600)	21,990
Capital assets, being depreciated/amortized					
Source of supply	50,116	-	-	9	50,125
Pumping plant	19,647	16	-	528	20,191
Water treatment	138,112	51	-	13,282	151,445
Transmission and distribution	235,460	1,163	(656)	8,897	244,864
General	35,909	1,317	(876)	884	37,234
Supplemental water supply storage	20,859	-	-	-	20,859
Capital assets, being depreciated/amortized	500,103	2,547	(1,532)	23,600	524,718
Less accumulated depreciation/amortization					
Source of supply	(33,082)	(1,446)	-	-	(34,528)
Pumping plant	(12,282)	(741)	-	-	(13,023)
Water treatment	(34,350)	(2,743)	-	-	(37,093)
Transmission and distribution	(93,792)	(4,519)	411	-	(97,900)
General	(15,751)	(2,379)	812	-	(17,318)
Supplemental water supply storage	(4,361)	(634)	-	-	(4,995)
Less accumulated depreciation/amortization	(193,619)	(12,462)	1,223	-	(204,858)
Capital assets, being depreciated/amortized, net	306,484	(9,915)	(309)	23,600	319,860
Total capital assets, net	\$ 337,779	\$ 4,449	\$ (378)	\$ -	\$ 341,850

The District had various active construction projects during the fiscal year 2011 including the following:

Fishery Studies	\$ 1,516
Headquarter Facility Expansion	2,374
WTP2 Liquid Oxygen Conversion, Process, Upgrades & Construction	1,144
Development of Main Replacement Criteria	804
Peralta-Tyson (PT) Blending Chemical Feed Upgrade	340
Rubber Dam 1 Fish Passage, Ladder & Bypass Pipe	728
WTP1 2011 Modifications - Design	1,215
Design-Appian Tank Seismic Upgrade	444
Customer Information System	1,143
Main Relocation for SFPUC Bay	348
Construction - PT2 & 7 Well Building Replacement	431
Various other active projects (individually less than \$280,000)	1,259
Customer installation jobs	519
Total	<u>\$ 12,265</u>



**Alameda County Water District**  
**Notes to Basic Financial Statements, Continued**  
**For the years ended June 30, 2011 and 2010**  
**(Dollars in thousands)**

**5. CAPITAL ASSETS, Continued**

*A. Summary of Capital Asset Activity, Continued*

At June 30, 2011, the District had construction commitments for the acquisition and construction of capital assets in the amount of \$6,272.

Capital asset activity for the year ended June 30, 2010 was as follows:

	Balance July 1, 2009	Additions	Retirements	Transfers	Balance June 30, 2010
Capital assets, not being depreciated/amortized:					
Land	\$ 9,701	\$ 24	\$ -	\$ -	\$ 9,725
Construction in progress	26,553	17,936	-	(22,919)	21,570
Capital assets, not being depreciated/amortized	<u>36,254</u>	<u>17,960</u>	<u>-</u>	<u>(22,919)</u>	<u>31,295</u>
Capital assets, being depreciated/amortized:					
Source of supply	43,852	11	-	6,253	50,116
Pumping plant	19,255	134	-	258	19,647
Water treatment	129,056	29	-	9,027	138,112
Transmission and distribution	228,418	1,047	(738)	6,733	235,460
General	34,660	1,222	(621)	648	35,909
Supplemental water supply storage	20,859	-	-	-	20,859
Capital assets, being depreciated/amortized	<u>476,100</u>	<u>2,443</u>	<u>(1,359)</u>	<u>22,919</u>	<u>500,103</u>
Less accumulated depreciation/amortization					
Source of supply	(31,597)	(1,485)	-	-	(33,082)
Pumping plant	(11,560)	(722)	-	-	(12,282)
Water treatment	(32,563)	(1,787)	-	-	(34,350)
Transmission and distribution	(89,269)	(5,009)	485	-	(93,793)
General	(15,106)	(1,252)	607	-	(15,751)
Supplemental water supply storage	(3,674)	(687)	-	-	(4,361)
Less accumulated depreciation/amortization	<u>(183,769)</u>	<u>(10,942)</u>	<u>1,092</u>	<u>-</u>	<u>(193,619)</u>
Capital assets, being depreciated/amortized, net	<u>292,331</u>	<u>(8,499)</u>	<u>(267)</u>	<u>22,919</u>	<u>306,484</u>
Total capital assets, net	<u>\$ 328,585</u>	<u>\$ 9,461</u>	<u>\$ (267)</u>	<u>\$ -</u>	<u>\$ 337,779</u>

Depreciation and amortization expense for capital assets for the year ended June 30, 2011 and 2010 were \$12,462 and \$10,942, respectively.

**Alameda County Water District**  
**Notes to Basic Financial Statements, Continued**  
**For the years ended June 30, 2011 and 2010**  
**(Dollars in thousands)**

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**5. CAPITAL ASSETS, Continued**

*B. Supplemental Water Supply Storage*

In 1996 and in 2001, the District entered into two agreements for a water banking and exchange program with Semitropic Water Storage District and its Improvement District (Semitropic). The entities are used for storage, withdrawal, and exchange rights for the District's State Water Project supplies. As of June 30, 2011, Semitropic's total capital component cost was \$204.7 million adjusted annually by the Construction Costs Index. Under the two agreements, the District's combined share of the total Capital Component Cost is a 15% vesting in the program. Under the 1996 agreement (for 5% of the Semitropic program capacity), the District pays the capital component when storing and recovering water. Under the 2001 agreement (for an additional 10% of the program capacity), the District has paid for the capital costs through fixed annual payments. Payments used for the construction of capital assets, such as pipelines, pumping facilities, storage facilities, etc., are capitalized and amortized over the life of the agreements.

The agreements terminate in November 2035. The costs of the District's water storage are amortized over the remaining life of the agreement. The District recognized amortization expense in the amount of \$634 and \$687 for the years ended June 30, 2011 and June 30, 2010, respectively.

The District had a storage allocation of 150,000 acre-feet and had approximately 79,344 and 110,087 acre feet of water at June 30, 2011 and 2010, respectively.

**6. ACCOUNTS PAYABLE AND ACCRUED PAYROLL**

Accounts payable and accrued expenses were as follows:

	<u>2011</u>	<u>2010</u>
Vendors	\$ 3,772	\$ 4,027
Retention payable	23	122
Installer's reimbursement	1,225	1,187
Other	<u>58</u>	<u>134</u>
Total	<u>\$ 5,078</u>	<u>\$ 5,470</u>

The District assesses and collects acreage and footage fees from developers which are included in accounts payable and accrued expenses as installers' reimbursement. Installers' reimbursement funds are designated to reimburse certain developers for a portion of the cost as defined by the District, of oversized mains, main extensions, and storage tanks constructed or installed by them at the request of the District. The terms of the agreements provide that such costs are reimbursable over a period of up to ten years out of certain cash receipts collected from contractors subsequently connecting to those previously installed mains. Such receipts are deposited in a cash deposits account separately for transmittal to the developers. The amount of such receipts, which had not been remitted as of June 30, 2011 and 2010, were \$1,225 and \$1,187, respectively. In the event that the designated future cash receipts from contractors are not adequate to fully reimburse the developers for the eligible construction cost incurred by the end of the ten-year period, the District will have no future obligation to the developers.

**Alameda County Water District**  
**Notes to Basic Financial Statements, Continued**  
**For the years ended June 30, 2011 and 2010**  
**(Dollars in thousands)**

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**6. ACCOUNTS PAYABLE AND ACCRUED PAYROLL (Continued)**

Accrued payroll and related liabilities were as follows:

	<u>2011</u>	<u>2010</u>
Accrued payroll	\$ 563	\$ 1,126
Accrued vacation	1,847	1,617
Accrued leave and other	<u>288</u>	<u>434</u>
Total	2,698	3,177
Less current portion	<u>(2,516)</u>	<u>(2,941)</u>
Long-term portion	<u>\$ 182</u>	<u>\$ 236</u>

Accrued vacation activity is as follows:

	<u>2011</u>	<u>2010</u>
Balance, beginning of year	\$ 1,618	\$ 1,441
Additions	1,639	1,489
Reduction	<u>(1,410)</u>	<u>(1,313)</u>
Balance, end of year	<u>\$ 1,847</u>	<u>\$ 1,617</u>

Current portion of accrued vacation, leave and other is approximated by averaging the compensation balances paid out over the past 3 fiscal years.

**Alameda County Water District**  
**Notes to Basic Financial Statements, Continued**  
**For the years ended June 30, 2011 and 2010**  
**(Dollars in thousands)**

**7. LONG-TERM DEBT**

Long-term debt activities for the year ended June 30, 2011 were as follows:

Description	Beginning	Additions	Reductions	Ending	Current	Noncurrent
	Balance			Balance		
	July 1, 2010			June 30, 2011		
2003 Certificates of Participation	\$ 25,000	\$ -	\$ -	\$ 25,000	\$ -	\$ 25,000
Unamortized premium	174	-	(9)	165	10	155
2009 Water System Refunding						
Revenue Bonds	23,875	-	(1,990)	21,885	2,030	19,855
Unamortized premium	1,182	-	(118)	1,064	118	946
Unamortized deferred loss on refunding	(1,974)	-	197	(1,777)	(197)	(1,580)
Note payable	59	-	(59)	-	-	-
<b>Total</b>	<b>\$ 48,316</b>	<b>\$ -</b>	<b>\$ (1,979)</b>	<b>\$ 46,337</b>	<b>\$ 1,961</b>	<b>\$ 44,376</b>

Long-term debt activities for the year ended June 30, 2010 were as follows:

Description	Beginning	Additions	Reductions	Ending	Current	Noncurrent
	Balance			Balance		
	July 1, 2009			June 30, 2010		
1998 Water System Refunding						
Revenue Bonds	\$ 29,340	\$ -	\$ (29,340)	\$ -	\$ -	\$ -
Unamortized discount and						
deferred loss on refunding	(1,842)	-	1,842	-	-	-
2003 Certificates of Participation	25,000	-	-	25,000	-	25,000
Unamortized premium	184	-	(10)	174	9	165
2009 Water System Refunding						
Revenue Bonds	-	26,340	(2,465)	23,875	1,990	21,885
Unamortized premium	-	1,251	(69)	1,182	118	1,064
Unamortized deferred loss on refunding	-	(2,096)	122	(1,974)	(197)	(1,777)
Note payable	59	-	-	59	59	-
<b>Total</b>	<b>\$ 52,741</b>	<b>\$ 25,495</b>	<b>\$ (29,920)</b>	<b>\$ 48,316</b>	<b>\$ 1,979</b>	<b>\$ 46,337</b>

**Alameda County Water District**  
**Notes to Basic Financial Statements, Continued**  
**For the years ended June 30, 2011 and 2010**  
**(Dollars in thousands)**

**7. LONG-TERM DEBT, Continued**

**1998 Water System Refunding Revenue Bonds and 2009 Water System Revenue Bonds**

On December 1, 1998, the District issued \$46,650 of refunding revenue bonds (the 1998 Revenue Bonds) to refund the 1992 and 1995 Water System Project Certificates of Participation (the Certificates). The installment Bonds have interest rates ranging from 3.5% to 4.75% and are payable in installments ranging from \$1,635 to \$3,400 through June 1, 2020. The 1998 Revenue Bonds are payable solely from and secured by the revenues received from the operation of the District's water system.

On September 30, 2009, the District refinanced its 1998 Revenue Bonds with a remaining debt service of \$29,340 carrying interest rates ranging from 4.3% to 4.75%. The 2009 Water System Refunding Revenue Bonds were issued in the amount of \$26,340 with interest rates ranging from 2.0% to 5% payable in annual installments through June 1, 2020. The Bonds were sold for the total price of \$27,486; equal to \$26,340 par amount, plus \$1,251 in original issue premium paid by investors less \$105 underwriter's discount. The 1998 Revenue Bonds were redeemed on November 13, 2009.

The 2009 Water System Revenue Bonds are payable solely from and secured by the revenues received from the operation of the District's water system. The District has covenanted that it will fix, prescribe and collect rates, fees and charges for use of the District's water system during each fiscal year which are at least sufficient to yield in each fiscal year net revenues equal to 125 percent of the debt service for such fiscal year, plus any amount necessary to restore the bond reserve fund to the reserve requirement. Annual principal and interest payments on the bonds are expected to require less than 10 percent of net revenues. The total principal and interest remaining to be paid from the bonds is \$25,390. Principal and interest paid for the current year and total water net revenues were \$2,664 and \$62,596, respectively.

The refunding of the 1998 Revenue Bonds resulted in an accounting deferred loss of \$579 combined with the unamortized refunding costs from the 1998 refunding of \$1,517 to be amortized annually through June 1, 2020. The 2009 refunding of the 1998 revenue bonds will result in annual savings of interest payments over the remaining life of the bonds ranging from \$437 to \$699 and a net present value savings to the District in debt service of \$3,984.

The debt service requirements for the 2009 Revenue bonds at June 30, 2011 were as follows:

Year Ending			
June 30,	Principal	Interest	Total
2012	\$ 2,030	\$ 634	\$ 2,664
2013	2,075	594	2,669
2014	2,335	531	2,866
2015	2,395	473	2,868
2016	2,455	408	2,863
2017-2020	10,595	865	11,460
Total	<u>\$ 21,885</u>	<u>\$ 3,505</u>	<u>\$ 25,390</u>

**Alameda County Water District**  
**Notes to Basic Financial Statements, Continued**  
**For the years ended June 30, 2011 and 2010**  
**(Dollars in thousands)**

**7. LONG-TERM DEBT, Continued**

**2003 Certificates of Participation**

In November 2003, the District issued \$25,000 of Revenues Certificates of Participation (2003 COP Bonds). The District had built a desalination facility and associated pipelines and upgraded its Mission San Jose Water Treatment Plant treatment process to an ultra filtration membrane process (Project). The District has used the net proceeds and reimbursed itself for these and related capital cost. The Certificates have interest rates ranging from 4.6% to 5.25% and they are payable in installments ranging from \$2,615 to \$3,695 starting from 2021 through 2028. The 2003 COP Bonds are payable solely from and secured by the revenues received from the operation of the District's water system. Annual principal and interest payments on the bonds are expected to require less than 10 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$41,473. Principal and interest paid for the current year and total net water revenues were \$1,203 and \$62,596, respectively.

The debt service requirements for the bonds at June 30, 2011 were as follows:

Year Ending June 30,	Principal	Interest	Total
2012	\$ -	\$ 1,203	\$ 1,203
2013	-	1,203	1,203
2014	-	1,203	1,203
2015	-	1,203	1,203
2016	-	1,203	1,203
2017 - 2021	2,615	6,015	8,630
2022 - 2026	15,175	3,925	19,100
2027 - 2028	7,210	518	7,728
Total	<u>\$ 25,000</u>	<u>\$ 16,473</u>	<u>\$ 41,473</u>

**Arbitrage**

Under U.S. Treasury Department regulations, all governmental tax-exempt debt issued after August 31, 1986 is subject to arbitrage rebate requirements. The requirements stipulate, in general, that the earnings from the investment of tax-exempt bond proceeds that exceed related interest expenditures on the bonds must be remitted to the federal government on every fifth anniversary of each bond issue. The District has evaluated each debt issue subject to the arbitrage rebate requirements and does not have a rebatable arbitrage liability as of June 30, 2011 and 2010.

**Note Payable**

In 1993, the District entered into a financial agreement to purchase certain properties. The District issued a note payable in the amount of \$1,000 which matured in August 2010, which bears no interest and the last installment in the amount of \$59 was paid in August 2010.

**Alameda County Water District**  
**Notes to Basic Financial Statements, Continued**  
**For the years ended June 30, 2011 and 2010**  
**(Dollars in thousands)**

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**8. RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The District participates in the Special District Risk Management Authority Property and Liability Insurance Program for risk of loss. The program provides general liability, property, commercial auto, boiler and machinery, employment practices, employee dishonesty coverage, employment benefits liability, public official errors and omissions and public official personal liability insurance coverage.

Prior to August 1, 2002, the District managed and financed some of these risks by purchasing commercial insurance for their worker's compensation and employer's liability. On August 1, 2002, the District joined the Special Districts Workers Compensation Authority (the Authority). The Authority is composed of California public entities and is organized under a joint powers agreement pursuant to California Government Code Section 6500, et seq. The purpose of the Authority is to arrange and administer programs for the pooling of self-insurance losses, to purchase excess insurance or reinsurance, and to arrange for group-purchased insurance and administrative services. The Authority's pool began covering claims of its members in 1982. The Board of Directors is composed of three members appointed by the Board of Directors of the California Special Districts Association and four members elected by the districts who are participating in the Authority.

The District did not have settled claims that exceeded the District's insurance coverage in any of the past three years.

The District's deductibles and maximum coverage as of June 30, 2011 are as follows:

Coverage Description	Deductibles	Insurance Coverage
General Liability	\$50	\$10,000
Automobile	50	10,000
Excess Liability	-	10,000
Property	50	1,000,000
Workers' Compensation	-	Statutory
Employee Dishonesty	-	400

**Alameda County Water District**  
**Notes to Basic Financial Statements, Continued**  
**For the years ended June 30, 2011 and 2010**  
**(Dollars in thousands)**

**9. COMMITMENTS**

In 1961, the District entered into a contract with the State of California (the State) to purchase water through the year 2035. After the initial term, the contract is renewable indefinitely by the District under essentially the same conditions as the original contract upon six months prior written notice to the State. The District's actual water usage for fiscal years 2011 and 2010 were approximately 28,910 and 18,000 acre-feet, respectively. The maximum entitlement will be 42,000 acre-feet during fiscal year 2011 and thereafter. In any year when the entitlement is in excess of the District's needs, the State will attempt to sell such excess and credit the District. The costs to the District for water purchased under this contract for fiscal years 2011 and 2010 were approximately \$5,760 and \$5,042, respectively, and were charged to operations as incurred.

The District's water is delivered to it through facilities operated and constructed by the State. The cost of the water is determined annually by the State and includes reimbursement to the State for the District's portion of the costs of construction and operation of these facilities.

The District's commitment under the State water contract will remain in effect until 2036 or until the cost of the State's facilities is recovered, whichever is longer. The commitment is subject to increase in future years as a result of additional improvements of higher-than-anticipated operating costs, and is projected by the State to be \$154,748 as of June 30, 2011 which was based on June 30, 2011 amount provided by the State.

Year Ending June 30,	State Water Purchase Commitment (in thousands)
2012	\$ 7,434
2013	7,443
2014	6,803
2015	6,431
2016	6,396
2017 - 2021	31,471
2022 - 2026	31,504
2027 - 2031	30,606
2032 - 2036	26,660
Total Water Purchase	<u>\$ 154,748</u>

The District entered into a contract with the San Francisco Water Department (SFWD) in June 1984. That contract was renewed in July 2009 to purchase certain minimum amounts of water over another 25-year period. The costs to the District for water purchased under this contract for fiscal years 2011 and 2010 were approximately \$7,710 and \$9,086, respectively, and were charged to operations as incurred. The District is obligated under the term of the agreement to make a minimum purchase of 8,567 acre-feet of water per year through 2034 at the then-current cost of water. In the event that the SFWD is unable to supply sufficient water to all users, the available water will be apportioned among the users ratably, with the District liable only for water actually delivered. For fiscal year 2011, the estimated cost of the minimum purchase commitment was approximately \$7,647. In fiscal year 2012, the District expects to purchase 9,038 acre-feet of water for a total price of approximately \$10,781.



**Alameda County Water District**  
**Notes to Basic Financial Statements, Continued**  
**For the years ended June 30, 2011 and 2010**  
**(Dollars in thousands)**

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**10. PENSION PLANS**

**A. *Plan Description***

The District contributes to the California Public Employees' Retirement System (CalPERS), an agent multiple-employer defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by State statute and District resolution. Copies of CalPERS' annual financial report may be obtained from their Executive Office at 400 P Street, Sacramento, California 95814. A separate report for the District's Plan within CalPERS is not available.

Effective January 1, 2009, the District implemented an employer paid member contribution (EPMC) plan for employees in its Management, Confidential and Professional group. Under this plan, the District picks up 1.5% of the eligible employees normal contribution to CalPERS (8%) and reports it as additional contribution. Effective July 1, 2009 the additional contribution percentage increased by 1% for a total District EPMC pickup of 2.5%. For fiscal year 2011 and 2010, the District's EPMC was \$258 and \$243, respectively.

**B. *Funding Policy***

Active plan members are required by state statute to contribute 8% of their annual covered salary. The District was required to contribute for fiscal years 2011 and 2010 at an actuarially determined rate of 20.161% and 19.932% of annual covered payroll for the District's employees, which amounted to \$4,327 and \$3,751 for the years ended June 30, 2011 and 2010.

**C. *CalPERS Three-Year Phase-In***

In response to the current financial market volatility that has impacted the CalPERS trust fund and future employer rates, CalPERS Board has adopted a new smoothing policy which will be implemented in the June 30, 2009 valuation. CalPERS will implement a three-year phase-in of the 2008-2009 investment loss because it is expected that three years will be a sufficient length of time for the economy to recover.

**D. *Annual Pension Cost***

For fiscal year 2011 and 2010, the District's annual pension cost of \$4,327 and \$3,751 for CalPERS was equal to the District's required and actual contributions. The required contribution was determined as part of the June 30, 2008 and June 30, 2007 actuarial valuations using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases ranging from 3.25% to 14.45% and (c) 3.25% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.0%. The actuarial value of CalPERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a fifteen-year period. The excess of the total actuarial accrued liability over the actuarial value of plan assets is called the unfunded actuarial accrued liability.

**Alameda County Water District**  
**Notes to Basic Financial Statements, Continued**  
**For the years ended June 30, 2011 and 2010**  
**(Dollars in thousands)**

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**10. PENSION PLANS, Continued**

*D. Annual Pension Cost, Continued*

Funding requirements are determined by adding the normal cost and an amortization of the unfunded liability as a level percentage of assumed future payrolls. Initial unfunded liabilities are amortized over a closed period that depends on the plan’s date of entry into CalPERS. Subsequent plan amendments are amortized as a level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a 30-year rolling period, which results in an amortization of about 6% of unamortized gains or losses each year.

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2009	\$ 3,481	100%	\$ -
2010	3,751	100%	-
2011	4,327	100%	-

*E. Funding Status as of the Most Recent Actuarial Date*

The CalPERS’ Board of Administration adopted updated actuarial assumptions to be used beginning with the June 30, 2009 valuation. Nearly all of the demographic assumptions have changed, including salary increase assumptions (3.55% to 14.45% depending on Age, Service, and type of employment) and rates for mortality, disability, termination and retirement. As of the June 30, 2009 actuarial valuation, the change in assumptions resulted in an increase in the unfunded actuarial accrued liabilities \$8.1 million for the District to be amortized over a closed 20-year period.

In June 2009, the CalPERS’ Board adopted changes to the asset smoothing method as well as changes to the Board policy on the amortization of gains and losses in order to phase in over a three year period the impact of the 24% investment loss experienced by CalPERS in fiscal year 2008-2009. The following changes were adopted:

- Increase the corridor limits for the actuarial value of assets from 80%-120% of market value to 60%-140% of market value on June 30, 2009.
- Reduce the corridor limits for the actuarial value of assets to 70%-130% of market value on June 30, 2010.
- Return to the 80%-120% of market value corridor limits for the actuarial value of assets on June 30, 2011 and thereafter.
- Isolate and amortize all gains and losses during fiscal year 2008-2009, 2009-2010, and 2010-2011 over fixed and declining 30-year periods (as opposed to the current rolling 30-year amortization).

As of the June 30, 2009 actuarial valuation, the change in “special” investment assumptions resulted in an increase in the unfunded actuarial accrued liabilities \$4.4 million for the District that will be amortized over fixed and declining 30 year periods.

**Alameda County Water District**  
**Notes to Basic Financial Statements, Continued**  
**For the years ended June 30, 2011 and 2010**  
**(Dollars in thousands)**

**10. PENSION PLANS, Continued**

*E. Funding Status as of the Most Recent Actuarial Date (Continued)*

The other significant actuarial assumptions used to prepare the District's June 30, 2009 actuarial valuation include the following:

Valuation date:	June 30, 2009
ARCs:	2011/2012
Actuarial Cost Method:	Entry Age Normal Cost Method
Amortization Method:	Level percent of payroll
Average Remaining Period	22 Years as of the Valuation Date
Asset Valuation Method:	15 Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return:	7.75% (net of administrative expenses)
Projected Salary Increases:	3.55% to 14.45% depending on Age, Service, and type of employment
Inflation:	3.00%
Payroll Growth:	3.25%
Individual Salary Growth:	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%.

The District contributes to the CalPERS, as an agent multiple - employer public employee defined benefit pension plan. The amounts reflected herein represent the District's portion as reported by CalPERS.

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	(Unfunded) Liability - (UAAL)/ Excess Assets	Funded Ratio	Annual Covered Payroll	(UAAL)/ Excess Assets as Percentage of Covered Payroll
6/30/2009	\$ 153,918	\$ 117,007	\$ (36,911)	76.0%	\$ 18,646	198.0%

Actuarial valuations for June 30, 2011 and 2010 are not available.

Actuarial valuations of an on-going plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Amounts determined regarding the funded status of the plan and the annual required contribution of the District are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**Alameda County Water District**  
**Notes to Basic Financial Statements, Continued**  
**For the years ended June 30, 2011 and 2010**  
**(Dollars in thousands)**

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**10. PENSION PLANS, Continued**

**F. Internal Revenue Code Section 401(a) Plan**

Effective January 1, 1997, the District established and administered the Alameda County Water District 401(a) Plan (the Plan), a defined contribution plan. The Plan provides retirement benefits to District employees. The employees vest upon joining the Plan. The District has agreed to contribute to the employee's accounts to match the employees' Internal Revenue Code Section 457 contributions up to a specified amount.

The District contributed \$59 and \$57 in fiscal years 2011 and 2010, respectively, as required under the District's Management, Confidential and Professional (MCP) employee compensation schedule. Effective January 1, 2004, the District's matching calendar year contribution to the 401(a) plan was discontinued in accordance with the Memorandum of Understanding (MOU) for United Public Employees Local 1021, AFL-CIO employees.

**11. OTHER POST EMPLOYMENT BENEFITS**

**A. Plan Description**

In addition to the pension benefits described in Note 10, the District provides health plan coverage for eligible retirees and their dependents pursuant to CalPERS Health Benefit Program eligibility requirements. The District's OPEB Plan is a single employer defined benefit plan. The District does not issue a separate report on its OPEB Plan.

In March 2009, the Board adopted a self-administered Other Postemployment Benefits (OPEB) Trust Account to fund the District's OPEB obligations. The OPEB Trust Account is operated and administered by the District for the exclusive benefit of eligible retirees and their qualified dependents and survivors for other non-pension post employment benefits, including medical, dental, vision, and life insurance. Contributions to the Trust Account are irrevocable, and assets under the Trust may not be diverted for any purpose other than funding the District's OPEB liability for eligible persons.

For employees hired before August 1, 2002, the District's contribution for each retired employee and all eligible dependents and eligible survivors shall be equal to the greater of the full cost of his/her enrollment, including the enrollment of his/her family members in the highest cost HMO medical plan with a traditional network or PERS Choice Plan offered by the CalPERS Health Benefits Program in the Bay Area/Sacramento Region.

For employees hired on or after August 1, 2002, the percentage of employer contribution payable for post retirement health benefits for each retired employee shall be based on the employee's completed years of credited service with the District and CalPERS as described below. The credited service for purposes of determining the percentage of employer contributions shall mean a minimum of ten years of service with a California PERS participating agency, and a minimum of five years of service, of the ten years of service must be performed exclusively for the District. The District contributes the minimum employer contribution (MEC) required amounts under the Public Employee's Medical and Hospital Care Act Minimum Employer Contribution rules as determined by CalPERS on an annual basis.

**Alameda County Water District**  
**Notes to Basic Financial Statements, Continued**  
**For the years ended June 30, 2011 and 2010**  
**(Dollars in thousands)**

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**11. OTHER POST EMPLOYMENT BENEFITS, Continued**

*A. Plan Description, Continued*

Credited Years of Service	Percentage of Employer Contributions
1-9	MEC
10	50
11	55
12	60
13	65
14	70
15	75
16	80
17	85
18	90
19	95
20+years	100

For employees hired on or after January 1, 2009, the District’s contribution for each retired employee and all eligible dependents and eligible survivors shall be equal to the lesser of the full cost of his/her enrollment, including the enrollment of his/her family members in the lowest cost HMO medical plan with a traditional network or PERS Choice Plan offered by the CalPERS Health Benefit Program in the Bay Area/Sacramento Region. The percentage of employer contribution payable for post employment health benefits shall be based on the employee’s completed years of service exclusively with the District as described below.

Credited Years of Service	Percentage of Employer Contributions
0-9	MEC
10-14	25
15-19	50
20-24	75
25+years	100

The District provides dental benefits to employees who retired from District service, and to their eligible dependents at the same cost as for active employees. Union employees hired after April 1, 1984 must have at least 10 years of service with the District and be at minimum age 50 at retirement to receive this benefit. Employees hired after April 1, 1988 must have 15 years of service with the District and be at minimum age 50 at retirement to receive this benefit. MCP employees hired on or after August 1, 2002, must have 15 years of service with the District and be at minimum age 50 at retirement in order to receive this retiree benefit.

**Alameda County Water District**  
**Notes to Basic Financial Statements, Continued**  
**For the years ended June 30, 2011 and 2010**  
**(Dollars in thousands)**

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**11. OTHER POST EMPLOYMENT BENEFITS, Continued**

*A. Plan Description, Continued*

Union employees hired on or after January 1, 2009 shall not be eligible to participate in the District's retiree dental plan upon their retirement from the District. MCP employees hired on or after April 1, 2009 shall not be eligible to participate in the District's retiree dental plan upon their retirement from the District.

The District provides Vision benefits to employees who retire from District service and to their eligible dependents at the same cost as for active employees. Union employees hired after April 2, 1984 must have at least 10 years of service with the District and be at minimum age 50 at retirement to receive this benefit. Union employees hired after April 1, 1988 must have 15 years of service with the District and be at minimum age 50 at retirement to receive this benefit. MCP employees hired on or after August 1, 2002 must have 15 years of service with the District and be at minimum age 50 at retirement in order to receive this retiree benefit. All employees hired on or after April 1, 2009, shall not be eligible to participate in the District's retiree vision plan upon retirement from the District.

The District provides health care benefits as described above for the surviving spouse and eligible dependents of a retiree so long as they meet the eligibility requirements. The District provides life insurance at a flat \$2,000 benefit for union retirees and a flat \$4,000 benefit for other retirees. All employees hired on or after April 1, 2009, shall not be eligible for retiree life insurance.

In fiscal year 2009, the District implemented GASB Statement No. 45, which provides for recognition of the estimated cost of non-pension, other post-employment benefits (OPEB). In March 2009, the District adopted a self-administered OPEB Trust Account to fund its OPEB obligations. Contributions to the trust are irrevocable and are used for the sole purpose of funding the District's OPEB liability. The trust is tax-exempt to the maximum extent allowed under Internal Revenue Service code section 115.

*B. Funding Policy*

The OPEB Trust is funded through District contributions and any gains/losses as a result of investments. The District is required to disclose the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) as a level percentage of payroll over a period not to exceed 30 years. Contributions to the OPEB Trust are determined by the OPEB Trust Committee. A total of 163 retirees participated in the plan as of June 30, 2011.

The District's funding policy is to fund the ARC. As of the June 30, 2009 and June 30, 2007 actuarial valuations, the District's fiscal years 2011 and 2010 ARC rate is 13.9% and 15.6% of covered payroll.

**Alameda County Water District**  
**Notes to Basic Financial Statements, Continued**  
**For the years ended June 30, 2011 and 2010**  
**(Dollars in thousands)**

**11. OTHER POST EMPLOYMENT BENEFITS, Continued**

*C. Annual OPEB Cost (AOC) and Net OPEB Asset*

The District's annual OPEB cost (AOC) is equal to (a) the ARC, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45, less (b) one year's interest on the beginning balance of the net OPEB asset, and plus (c) an adjustment to ARC. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost of each year and any unfunded actual liabilities or funding excess amortized over thirty years. The District's annual ARC and AOC were determined as part of the June 30, 2009 and June 30, 2007 actuarial valuations.

The following table shows the components of the District's annual OPEB cost, the amount contributed to the Plan and changes in the District's Net OPEB Asset:

	2011	2010
Normal Cost	\$ 1,005	\$ 880
UAAL Amortization	1,633	1,796
Annual Required Contribution	2,638	2,676
Interest on Net OPEB Asset	(56)	(66)
Adjustments to Net OPEB Asset	178	159
Annual OPEB Cost (AOC)	2,760	2,769
Contributions made	(2,658)	(2,406)
Change in Net OPEB Asset	102	363
Net OPEB Asset, beginning of year	(2,045)	(2,408)
Net OPEB Asset, end of year	\$ (1,943)	\$ (2,045)

The following table represents annual OPEB cost, the amount actually contributed to the Plan, and the District's Net OPEB Asset:

Year Ended	Annual OPEB Cost	Contributions Made	Percentage of OPEB Cost Contributed	Net OPEB Asset
6/30/2009	\$ 2,592	\$ 5,000	193%	\$ 2,408
6/30/2010	2,769	2,406	87%	2,045
6/30/2011	2,760	2,658	96%	1,943

**Alameda County Water District**  
**Notes to Basic Financial Statements, Continued**  
**For the years ended June 30, 2011 and 2010**  
**(Dollars in thousands)**

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**11. OTHER POST EMPLOYMENT BENEFITS, Continued**

*D. Funded Status and Funding Progress*

As of June 30, 2009, the most recent actuarial valuation date, the funded status of the Plan was as follows:

Actuarial accrued liability (AAL)	\$32,915
Actuarial value of plan assets	<u>3,496</u>
Unfunded actuarial accrued liability	<u>\$29,419</u>
Funded ratio (actuarial value of plan assets/AAL)	10.6%
Annual covered payroll (active plan members)	\$19,001
UAAL as a percentage of annual covered payroll	154.8%

*E. Actuarial Methods and Assumptions*

Actuarial valuations of an on-going plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contribution of the District are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the District and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the District and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.



**Alameda County Water District**  
**Notes to Basic Financial Statements, Continued**  
**For the years ended June 30, 2011 and 2010**  
**(Dollars in thousands)**

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**11. OTHER POST EMPLOYMENT BENEFITS, Continued**

*E. Actuarial Methods and Assumptions, Continued*

Significant actuarial assumptions are as follows:

Valuation date:	June 30, 2007	June 30, 2009
ARCs:	2008/2009 and 2009/2010	2010/2011 and 2011/2012
Discount rate:	Select and ultimate discount rate based on prefunding through separate trust and then moving to CERBT in 2011/2012: 2008/09 2.75% ; 2009/10 2.75% ; 2010/11 2.75% and 2011/12+ 7.75%.	Same
Healthcare trend:	Rates of 9.7% to 10.9% trending to 4.5% in year 2017+	Rates of 8.4% to 9.3% trending to 4.5% in year 2017+
Cost method:	Entry Age Normal	Same
Amortization method:	Level percentage of payroll	Same
Funding policy:	District contributes full ARC to Trust	Same
Actuarial value of assets:	N/A	Assets gains/losses recognized over 5 years; Shorter period but same method as CalPERS Pension; and Corridor 80% of 120% of market value.
Amortization period:	Amortized over fixed 30-year period beginning 2008/2009	28-year fixed (closed) period for initial UAAL from 06/30/2010; 20-year closed period for plan changes; 15-year closed period for method and assumption changes.

**12. LITIGATION**

In the normal course of business, the District is a defendant in various lawsuits. Defense of the lawsuits is being handled by the District's insurance carriers and losses, if any, are expected to be covered by insurance. District officials are of the opinion that none of these lawsuits will have a material adverse effect on the District's financial position.

**Alameda County Water District**  
**Notes to Basic Financial Statements, Continued**  
**For the years ended June 30, 2011 and 2010**  
**(Dollars in thousands)**

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**13. LIVERMORE AMADOR VALLEY WATER MANAGEMENT AGENCY**

The Livermore Amador Valley Water Management Authority (LAVWMA) is a joint powers agency consisting of the Dublin San Ramon Services District (DSRSD) and the cities of Livermore and Pleasanton. LAVWMA owns and operates a pipeline system to export secondary treated effluent from the City of Livermore and DSRSD's wastewater treatment plants to the East Bay Discharger Association collector with ultimate discharge to San Francisco Bay. In wet weather, rain water enters the LAVWMA collection system and storage is used if necessary to prevent any system overflows to Alamo Canal, a tributary to Alameda Creek. To support the growth in the Tri-Valley, LAVWMA has proposed a pipeline expansion and rehabilitation project of their existing export pipeline of secondary treated effluent. With the intent to preserve the integrity of the District's groundwater basins, on December 10, 1998 the Board approved a memorandum of understanding (MOU) between Livermore Amador Valley Water Management Agency and Alameda County Water District. The MOU agreement was made to ensure that ACWD customers are "made whole" with respect to the direct and indirect impacts of the LAVWMA project.

In November 2009 the District received \$9.4 million from LAVWMA to terminate the 1998 MOU agreement.

**14. SUBSEQUENT EVENT**

In August 2011, Standard & Poor's lowered its long-term credit rating from AAA to AA+ on debt of the U.S. government, U.S. government-sponsored enterprises, and public debt issues that have credit enhancement guarantees by U.S. government sponsored enterprises. These credit downgrades relate to the credit risk associated with the District's investments in U.S. agency securities. At June 30, 2011, the District owned \$40,914 in U.S. agency securities.

**REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)**

**Alameda County Water District**  
**Required Supplemental Information (Unaudited)**  
**Schedules of Funding Progress**  
**For the years ended June 30, 2011 and 2010**  
**(Dollars in thousands)**

**1. DEFINED BENEFIT PENSION PLAN**

The District contributes to CalPERS, as an agent multiple-employer public employee defined benefit pension plan. The amounts reflected herein represent the District's portion as reported by CalPERS.

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	(Unfunded)	Funded Ratio	Annual Covered Payroll	(UAAL)/
			Liability - (UAAL)/ Excess Assets			Excess Assets As Percentage of Covered Payroll
6/30/2007	\$ 126,703	\$ 104,873	\$ (21,830)	82.8%	\$ 15,949	-136.9%
6/30/2008	136,495	112,276	(24,219)	82.3%	17,106	-141.6%
6/30/2009	153,919	117,007	(36,912)	76.0%	18,646	-198.0%

Actuarial valuations as of June 30, 2011 and 2010 are not available

**2. OTHER POST EMPLOYMENT BENEFITS**

In fiscal year 2009, the District implemented GASB Statement No. 45, which provides for recognition of the estimated cost of non-pension, other post-employment benefits (OPEB). In March 2009, the District adopted a self-administered OPEB Trust to fund its OPEB obligations. Contributions to the OPEB Trust are irrevocable and are used for the sole purpose of funding the District's OPEB liability.

Valuation Date	Actuarial Accrued Liability	Actuarial Value of Assets	(Unfunded)	Funded Ratio	Annual Covered Payroll	(UAAL)/
			Liability - (UAAL)/ Excess Assets			Excess Assets As Percentage of Covered Payroll
6/30/2007	\$ 31,538	\$ -	\$ (31,538)	0.0%	\$ 16,634	-189.6%
6/30/2009	32,915	3,496	(29,419)	10.6%	19,001	-154.8%

Actuarial valuations as of June 30, 2011 and 2010 are not available

Closed group actuarial cost method

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# STATISTICAL SECTION

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# STATISTICAL SECTION

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This part of the Alameda County Water District's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the District's overall financial health.

<b>Index</b>	<b>Page</b>
<b>Financial Trends</b>	54
These schedules contain trend information to help the reader understand how the District's financial performance and well-being have changed over time.	
<b>Revenue Capacity</b>	56
These schedules contain information to help the reader assess the District's most significant local revenues source, the water revenues. Also included in this section is information on the District's second significant source of local revenues, the property tax.	
<b>Debt Capacity</b>	61
These schedules present information to help the reader assess the affordability of the District's current levels of outstanding debt and the District's ability to issue additional debt in the future.	
<b>Demographic and Economic Information</b>	63
These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place.	
<b>Operating Information</b>	65
These schedules contain service and infrastructure data to help the reader understand how the information in the District's financial report relates to the services the District provides and the activities it performs.	



**Table 1**  
**ALAMEDA COUNTY WATER DISTRICT**  
**TEN YEAR SUMMARY OF REVENUES, EXPENSES, and RATE INCREASES (Unaudited)**  
**(in thousands)**

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
<b>OPERATING REVENUES:</b>										
Water Sales	\$ 42,097	\$ 42,833	\$ 48,350	\$ 47,469	\$ 53,355	\$ 57,285	\$ 58,087	\$ 56,778	\$ 56,744	\$ 62,596
Facilities Connection Charges	3,177	1,982	1,849	3,864	3,589	3,276	3,874	5,703	1,768	1,892
Other Revenue	1,396	1,516	3,301	3,691	1,963	4,021	2,090	1,576	1,737	1,559
<b>TOTAL OPERATING REVENUES</b>	<b>46,670</b>	<b>46,331</b>	<b>53,500</b>	<b>55,024</b>	<b>58,907</b>	<b>64,582</b>	<b>64,051</b>	<b>64,057</b>	<b>60,249</b>	<b>66,047</b>
<b>OPERATING EXPENSES:</b>										
Source of Supply										
Water Purchases	9,003	9,435	9,532	9,529	9,616	12,985	14,211	14,129	14,128	14,402
Pumping	2,208	2,749	2,604	2,980	2,617	2,666	2,574	2,583	2,592	3,116
Other	4,219	4,440	6,096	6,523	6,002	6,303	6,783	9,707	7,511	8,819
Water Treatment	5,714	6,003	8,944	8,786	9,936	9,732	10,097	11,022	11,297	12,464
Transmission and Distribution	6,865	8,153	9,986	9,423	9,753	10,311	10,089	11,285	11,997	11,343
Admin. of Customer Accounts	2,527	2,526	1,040	995	957	1,056	1,076	1,163	1,252	1,507
Administration and General	4,671	6,175	3,733	4,151	5,310	5,286	6,210	7,605	8,335	6,170
Depreciation and Amortization	8,780	8,960	9,952	9,926	10,402	10,698	10,811	10,968	10,942	12,462
<b>TOTAL OPERATING EXPENSES</b>	<b>43,987</b>	<b>48,441</b>	<b>51,887</b>	<b>52,313</b>	<b>54,593</b>	<b>59,037</b>	<b>61,851</b>	<b>68,462</b>	<b>68,054</b>	<b>70,283</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>										
Investment Income	3,731	2,602	1,162	1,608	2,524	4,537	5,344	4,032	2,448	1,416
Property Taxes	4,779	4,867	4,849	1,778	2,575	5,820	6,657	7,381	7,479	7,256
Other Revenues (1)	-	-	-	-	-	-	-	-	10,934	450
Other Expenses/Loss on Disposal	(2,144)	(3,927)	(2,702)	(3,287)	(2,827)	(2,943)	(2,897)	(2,915)	(2,373)	(2,060)
<b>TOTAL NONOPERATING REVENUES (EXPENSES):</b>	<b>6,366</b>	<b>3,542</b>	<b>3,309</b>	<b>99</b>	<b>2,272</b>	<b>7,414</b>	<b>9,104</b>	<b>8,498</b>	<b>18,488</b>	<b>7,062</b>
<b>Capital Contributions</b>	<b>3,238</b>	<b>2,306</b>	<b>2,416</b>	<b>2,547</b>	<b>4,185</b>	<b>4,796</b>	<b>3,988</b>	<b>6,237</b>	<b>5,491</b>	<b>3,677</b>
<b>Increase in Net Assets</b>	<b>\$ 12,287</b>	<b>\$ 3,738</b>	<b>\$ 7,338</b>	<b>\$ 5,357</b>	<b>\$ 10,771</b>	<b>\$ 17,755</b>	<b>\$ 15,292</b>	<b>\$ 10,330</b>	<b>\$ 16,174</b>	<b>\$ 6,503</b>
% Water Rate Increase (of latter of FY)	5.00	7.00	7.00	7.00*	5.00*	9.00	4.50	6.00	9.00	8.00
<b>Number of Employees (2)</b>	<b>206</b>	<b>210</b>	<b>217</b>	<b>218</b>	<b>218</b>	<b>212</b>	<b>214</b>	<b>214</b>	<b>219</b>	<b>226</b>

(1) LAVWMA termination of 1998 MOU Agreement and Polybutylene Settlement in FY 2009/10. NUMMI Agreement Payout in FY 2010/11.

(2) Active employees as of June 30, 2011.

Source: Alameda County Water District Finance Department

\*Excludes 6.5% Supplemental Temporary Water Rate Increase

**Table 2**  
**ALAMEDA COUNTY WATER DISTRICT**  
**TEN YEAR SUMMARY OF NET ASSETS (Unaudited)**  
**(in thousands)**

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
<b>NET ASSETS:</b>										
Invested in capital assets, net of related debt	\$ 229,151	\$ 249,640	\$ 244,634	\$ 249,646	\$ 252,840	\$ 255,535	\$ 260,757	\$ 275,844	\$ 292,179	\$ 298,301
Restricted for debt service	5,187	5,163	7,700	7,679	7,768	7,781	7,662	7,701	2,515	2,436
Unrestricted	95,351	78,624	88,432	86,797	94,287	109,334	119,523	98,124	103,149	103,609
<b>TOTAL NET ASSETS:</b>	<b>\$ 329,689</b>	<b>\$ 333,427</b>	<b>\$ 340,766</b>	<b>\$ 344,122</b>	<b>\$ 354,895</b>	<b>\$ 372,650</b>	<b>\$ 387,942</b>	<b>\$ 381,669</b>	<b>\$ 397,843</b>	<b>\$ 404,346</b>

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Note: The District restated its 2008/09 net assets balance to reflect an impairment of its Water Treatment Plant 1, the impact of the GASB No. 51 implementation and an adjustment to the District's accumulated supplemental water supply storage capitalized costs.

Source: Alameda County Water District Finance Department

**Table 3**  
**ALAMEDA COUNTY WATER DISTRICT**  
**TEN YEAR SUMMARY OF PROPERTY TAX LEVIES/COLLECTIONS (Unaudited)**  
**(in thousands)**

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
<b>Levies:</b>										
1% Tax Allocation	\$ 2,516	\$ 2,727	\$ 2,809	\$ 286 *	\$ 488 *	\$ 3,418	\$ 3,615	\$ 3,622	\$ 3,541	\$ 3,537
State Water Contract Tax	1,810	1,707	1,546	1,182	1,696	2,079	2,516	3,071	2,595	2,803
General Obligation Bonds Tax	---	---	---	---	---	---	---	---	---	---
<b>Total</b>	<b>\$ 4,326</b>	<b>\$ 4,434</b>	<b>\$ 4,355</b>	<b>\$ 1,468</b>	<b>\$ 2,184</b>	<b>\$ 5,497</b>	<b>\$ 6,131</b>	<b>\$ 6,693</b>	<b>\$ 6,136</b>	<b>\$ 6,340</b>
<b>Collections:</b>										
Percentage of Collection of Levies (%)	110%	110%	111%	121%	118%	106%	109%	116%	101%	113%

Source: Alameda County Water District Finance Department

\* Portions of District's allocation of countywide 1% tax levy (\$ 2,817) transferred to Educational Revenue Augmentation Fund (ERAF) by State.

**Table 4**  
**ALAMEDA COUNTY WATER DISTRICT**  
**TEN YEAR SUMMARY OF ASSESSED VALUATION (Unaudited)**  
**(in thousands)**

<u>Fiscal Year</u>	<u>Local Secured</u>	<u>Utility</u>	<u>Unsecured</u>	<u>Total</u>
2001/02	\$28,743,039	\$28,080	\$3,131,947	\$31,903,066
2002/03	30,891,676	27,498	3,052,604	33,971,778
2003/04	32,948,036	17,471	2,770,387	35,735,893
2004/05	34,731,705	21,598	2,418,796	37,172,099
2005/06	37,453,609	20,099	2,556,504	40,030,212
2006/07	40,105,912	17,559	2,559,158	42,682,628
2007/08	42,888,414	5,812	2,616,332	45,510,558
2008/09	44,849,292	5,620	2,750,418	47,605,330
2009/10	43,825,950	5,620	3,047,425	46,878,995
<b>2010/11</b>	<b>43,522,656</b>	<b>5,755</b>	<b>3,093,752</b>	<b>46,622,164</b>

Source: California Municipal Statistics, Inc. and Alameda County Auditor-Controller's Office

**Table 5**  
**ALAMEDA COUNTY WATER DISTRICT**  
**TEN YEAR SUMMARY OF SECURED TAX CHARGES AND DELINQUENCIES (Unaudited)**  
**(in thousands)**

<u>Fiscal Year</u>	<u>Secured Tax Charge (1)</u>	<u>Amount Delinquent June 30</u>	<u>Percent Delinquent June 30</u>	
2001/02	\$2,241	\$65	2.91	%
2002/03	2,391	68	2.85	
2003/04	1,455	23	1.61	
2004/05	1,110	17	1.56	
2005/06	1,665	28	1.67	
2006/07	2,037	61	3.00	
2007/08	2,460	93	3.80	
2008/09	2,998	109	3.65	
2009/10	2,544	64	2.51	
<b>2010/11</b>	<b>2,771</b>	<b>56</b>	<b>2.01</b>	

(1) The figures above include only information provided by the County, which is the State Water Project override "debt service" levy.

Source: Alameda County Auditor-Controller

**Table 6**  
**ALAMEDA COUNTY WATER DISTRICT**  
**TEN YEAR SUMMARY OF SCHEDULE OF WATER RATES-BIMONTHLY READINGS & BILLINGS (Unaudited)**

	Eff. 1/1 2002	Eff. 1/1 2003	Eff. 1/1 2004	Eff. 1/1 2005	Eff. 1/1 2006	Eff. 2/1 2007	Eff. 2/1 2008	Eff. 2/1 2009	Eff. 2/1 2010	Eff. 3/1 2011
<b>COMMODITY CHARGE/HCF:</b>										
Inside District	\$ 1.630	\$ 1.744	\$ 1.866	\$ 1.997	\$ 2.096	\$ 2.285	\$ 2.388	\$ 2.531	\$ 2.754	\$ 2.974
Outside District	1.875	2.006	2.146	2.296	2.410	2.627	2.745	2.910	3.166	3.419
San Francisco	1.677	1.794	1.955	2.002	2.102	2.292	2.395	2.682	2.918	3.242
<b>BIMONTHLY METER SERVICE CHARGE:</b>										
Inside District & SF Water Service										
5/8" & 3/4 "	\$ 8.90	\$ 9.30	\$ 9.60	\$ 9.60	\$ 10.08	\$ 10.08	\$ 10.08	\$ 10.68	\$ 11.62	\$ 12.55
1	13.75	13.75	13.75	13.75	14.44	14.44	14.44	15.31	16.66	17.99
1-1/2	24.30	24.30	24.30	24.30	25.52	25.52	25.52	27.05	29.43	31.78
2	34.85	34.85	34.85	34.85	36.59	36.59	36.59	38.79	42.20	45.58
3	132.15	132.15	132.15	132.15	138.76	138.76	138.76	147.09	160.03	172.83
4	191.40	191.40	191.40	191.40	200.97	200.97	200.97	213.03	231.78	250.32
6	462.00	462.00	462.00	462.00	485.10	485.10	485.10	514.21	559.46	604.22
8	676.50	676.50	676.50	676.50	710.33	710.33	710.33	752.95	819.21	884.75
10	1,144.00	1,144.00	1,209.00	1,209.00	1,269.45	1,269.45	1,269.45	1,345.62	1,464.03	1,581.15
Outside District Water Service										
5/8" & 3/4 " or less	\$ 10.20	\$ 10.65	\$ 11.00	\$ 11.00	\$ 11.59	\$ 11.59	\$ 11.59	\$ 12.28	\$ 13.36	\$ 14.43
1	15.80	15.80	15.80	15.80	16.61	16.61	16.61	17.61	19.16	20.69
1-1/2	27.90	27.90	27.90	27.90	29.35	29.35	29.35	31.11	33.84	36.55
2	40.05	40.05	40.05	40.05	42.08	42.08	42.08	44.61	48.53	52.41
3	151.95	151.95	151.95	151.95	159.57	159.57	159.57	169.15	184.03	198.75
4	220.10	220.10	220.10	220.10	231.12	231.12	231.12	244.98	266.55	287.87
6	531.30	531.30	531.30	531.30	557.87	557.87	557.87	591.34	643.38	694.85
8	778.00	778.00	778.00	778.00	816.88	816.88	816.88	865.89	942.09	1,017.46
10	1,315.60	1,315.60	1,390.35	1,390.35	1,459.87	1,459.87	1,459.87	1,547.46	1,683.63	1,818.32
<b>BIMONTHLY CHARGE FOR PRIVATE FIRE SERVICES:</b>										
4 " or less	\$ 14.40	\$ 14.40	\$ 14.40	\$ 14.40	\$ 14.40	\$ 14.40	\$ 14.40	\$ 14.40	\$ 14.40	\$ 14.40
6	19.20	19.20	19.20	19.20	19.20	19.20	19.20	19.20	19.20	19.20
8	24.00	24.00	24.00	24.00	24.00	24.00	24.00	24.00	24.00	24.00
10	28.80	28.80	28.80	28.80	28.80	28.80	28.80	28.80	28.80	28.80
12	33.60	33.60	33.60	33.60	33.60	33.60	33.60	33.60	33.60	33.60
16	43.20	43.20	43.20	43.20	43.20	43.20	43.20	43.20	43.20	43.20

Source: Alameda County Water District Finance Department

**Table 7**  
**ALAMEDA COUNTY WATER DISTRICT**  
**TEN LARGEST DISTRIBUTION WATER REVENUE ACCOUNTS (Unaudited)**  
(1=Highest to 10=Lowest)

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
City of Fremont	2	2	2	2	2	2	3	2	2	1
Fremont Unified School District	3	3	3	3	3	3	2	1	1	2
Western Digital Technologies	-	-	-	5	4	4	5	5	5	3
Prologis Trust	7	6	6	6	6	5	4	3	3	4
City of Union City	-	10	8	9	8	6	6	6	6	5
School for the Deaf	-	-	-	-	-	-	-	-	-	6
Contempo Homeowners Association	5	5	5	-	5	7	7	9	7	7
Newark Unified School District	4	8	9	8	9	8	8	7	9	8
Solyndra Inc.	-	-	-	-	-	-	-	-	10	9
Ardenwood Forest Apartments	-	-	-	-	-	-	-	-	-	10
New United Motor Manufacturing, Inc.	1	1	1	1	1	1	1	4	4	-
Equity Residential Properties Trust	-	-	-	7	-	-	-	8	8	-
City of Newark	-	-	4	4	-	10	10	10	-	-
Read-Rite Corporation	8	4	-	-	-	-	-	-	-	-
Equity Residential Properties Trust	6	7	7	10	10	9	9	-	-	-
Agilent Technologies	9	-	-	-	-	-	-	-	-	-
Lam Research	10	9	-	-	-	-	-	-	-	-
New Haven School District	-	-	10	-	-	-	-	-	-	-
MMC Technology	-	-	-	-	7	-	-	-	-	-

Source: Alameda County Water District Finance Department

**TABLE 8**  
**ALAMEDA COUNTY WATER DISTRICT**  
**HISTORICAL and PROJECTED REVENUES, OPERATING EXPENSES and DEBT SERVICE COVERAGE**  
**Fiscal Years 2006/07 - 2015/16 (Unaudited)**  
(in thousands)

	Actual					Projected				
	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
<b>Revenues</b>										
Water Sales	\$ 57,285	\$ 58,087	\$ 56,778	\$ 56,744	\$ 62,596	\$ 66,188	\$ 70,157	\$ 75,757	\$ 81,801	\$ 88,329
Investment Income	4,537	5,344	4,031	2,448	1,416	1,101	1,443	1,990	1,684	1,542
Property Taxes (1)	5,820	6,657	7,381	7,479	7,256	7,140	3,000	3,000	3,000	3,000
Development Fees	3,276	3,873	5,703	1,768	1,892	2,209	2,443	2,590	2,590	2,590
Other Revenue (5)	4,021	2,090	1,576	1,738	1,559	1,423	3,927	722	722	722
<b>Total Revenues</b>	<b>74,939</b>	<b>76,051</b>	<b>75,469</b>	<b>70,177</b>	<b>74,719</b>	<b>78,060</b>	<b>80,970</b>	<b>84,059</b>	<b>89,798</b>	<b>96,183</b>
<b>Expenses</b>										
Pumping Costs	2,666	2,574	2,583	2,592	3,116	2,836	2,960	3,049	3,140	3,235
Other Operating Expenses (2)	4,451	8,247	13,010	9,283	7,642	8,834	9,255	9,533	9,819	10,113
Labor Costs (3)	28,050	25,854	31,360	31,069	32,569	35,630	37,939	39,077	40,250	41,457
Purchased Water (4)	12,985	14,211	14,129	14,128	14,402	17,251	17,818	18,835	19,855	21,930
Aquifer Reclamation Costs	187	154	88	40	92	-	-	-	-	-
<b>Total Expenses</b>	<b>48,339</b>	<b>51,040</b>	<b>61,170</b>	<b>57,112</b>	<b>57,821</b>	<b>64,551</b>	<b>67,972</b>	<b>70,495</b>	<b>73,064</b>	<b>76,736</b>
<b>Net Revenues</b>	<b>\$ 26,600</b>	<b>\$ 25,011</b>	<b>\$ 14,299</b>	<b>\$ 13,065</b>	<b>\$ 16,898</b>	<b>\$ 13,509</b>	<b>\$ 12,997</b>	<b>\$ 13,565</b>	<b>\$ 16,734</b>	<b>\$ 19,447</b>
<b>Maximum Annual Debt Service on Revenue Certificates and Bond</b>										
1998 Refunding Revenue Bond	\$ 3,361	\$ 3,360	\$ 3,359	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2003 Certificates of Participation	1,203	1,203	1,203	1,203	1,203	1,203	1,203	1,203	1,203	1,203
2009 Refunding Revenue Bond	-	-	-	2,921	2,664	2,664	2,669	2,866	2,868	2,863
<b>Total Debt Service</b>	<b>\$ 4,564</b>	<b>\$ 4,563</b>	<b>\$ 4,562</b>	<b>\$ 4,124</b>	<b>\$ 3,867</b>	<b>\$ 3,867</b>	<b>\$ 3,872</b>	<b>\$ 4,069</b>	<b>\$ 4,071</b>	<b>\$ 4,066</b>
<b>Ratio of Net Revenues to Maximum Annual Debt Service on Revenue Certificates</b>	<b>5.83x</b>	<b>5.48x</b>	<b>3.13x</b>	<b>3.17x</b>	<b>4.37x</b>	<b>3.49x</b>	<b>3.36x</b>	<b>3.33x</b>	<b>4.11x</b>	<b>4.78x</b>

Notes:

(1) Includes the effects of the 85% State take-away of Ad-Valorem tax revenues for year 2006. This table demonstrates historical and projected debt service coverage taking into account the inclusion of property taxes collected by the District, while also taking into account expenses paid for by such taxes.

(2) Includes annual inflationary increase of 3.00% beginning in 2012.

(3) Includes fringe benefits and annual inflationary increase as relevant beginning in 2012. OPEB cost included beginning FY 2008/09.

(4) Per contract schedule.

(5) Included certain one-time grants, reimbursements of shared projects, property sales, and a mitigation payment.

Source: Alameda County Water District Finance Department. Total may not add up due to rounding.



**Table 9**  
**ALAMEDA COUNTY WATER DISTRICT**  
**TEN YEAR SUMMARY OF OUTSTANDING DEBT (Unaudited)**  
**(in thousands)**

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
<b>Certificates of Participation</b>										
1998 Refunding Revenue Bonds 3.5% - 4.63% Maturity: FY 2019-20	\$ 41,295	\$ 39,775	\$ 38,200	\$ 36,565	\$ 34,865	\$ 33,095	\$ 31,255	\$ 29,340	-	-
2003 Revenue COP's 4.6% - 5.25% Maturity: FY 2027-28	-	-	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000
2009 Refunding Revenue Bonds 2.0% - 5.0% Maturity: FY 2019-20	-	-	-	-	-	-	-	-	\$ 23,875	\$ 21,885
<b>Total</b>	<b>\$ 41,295</b>	<b>\$ 39,775</b>	<b>\$ 63,200</b>	<b>\$ 61,565</b>	<b>\$ 59,865</b>	<b>\$ 58,095</b>	<b>\$ 56,255</b>	<b>\$ 54,340</b>	<b>\$ 48,875</b>	<b>\$ 46,885</b>
<b>Total Outstanding Debt to Personal Income</b>	74.65	70.49	106.51	99.03	90.26	82.10	76.89	75.90	N/A	N/A
<b>Total Debt Per Capita</b>	\$ 128	\$ 123	\$ 196	\$ 191	\$ 185	\$ 178	\$ 170	\$ 163	\$ 150	N/A

Sources: (1) State of California, Department of Finance. Data for 2011 not available.

(2) U.S. Department of Commerce, Bureau of Economic Analysis. Most recent data is for 2009.

(3) Alameda County Water District Finance Department

**Table 10**  
**ALAMEDA COUNTY WATER DISTRICT**  
**LARGEST EMPLOYERS WITHIN THE DISTRICT (Unaudited)**

<b>CITY OF FREMONT<sup>(1)</sup></b>					
<u>Employer</u>	<u>2010</u>		<u>Employer</u>	<u>2001</u>	
	<u>Number of Employees</u>	<u>Percent of Total Employment</u>		<u>Number of Employees</u>	<u>Percent of Total Employment</u>
Fremont Unified School Dist	3,000	3.02 %	New United Motor Mfg., Inc.	4,700	4.29 %
Washington Hospital	1,800	1.81	Washington Hospital	1,347	1.23
Boston Scientific/Target Therapeutics,	1,800	1.81	City of Fremont	1,200	1.09
Western Digital	1,800	1.81	Sysco Food Services	1,100	1.00
Seagate Magnetics	1050	1.06	HMT Technology Corp.	1,050	0.96
AXT, Inc.	950	0.96	Ohlone College	750	0.68
Lam Research	950	0.96	Synnex Info Technologies	600	0.55
Oplink Communications	900	0.91	Smart Modular Tech, Inc.	571	0.52
Solyndra	800	0.81	Walters & Wolf Glass Co.	550	0.50
Sysco Food Services	750	0.76	Lucky Stores, Inc.	530	0.48
<b>Total City Employment</b>	<b>98,775</b>		<b>Total City Employment</b>	<b>109,680</b>	

<b>CITY OF UNION CITY<sup>(2)</sup></b>					
<u>Employer</u>	<u>2010</u>		<u>Employer</u>	<u>2001</u>	
	<u>Number of Employees</u>	<u>Percent of Total Employment</u>		<u>Number of Employees</u>	<u>Percent of Total Employment</u>
Axygen Bioscience Inc.	1,200	3.96 %	Southern Wine & Spirits	650	1.93 %
New Haven Unified School District	1,139	3.76	Wal-Mart	450	1.34
Wal-Mart	500	1.65	American Licorice	365	1.09
Young's Market Co. LLC	400	1.32	Apria Health Care	350	1.04
City of Union City	353	1.17	San Francisco Chronicle	300	0.89
American Licorice	350	1.16	U.S. Food Service	300	0.89
Southern Wine and Spirits	350	1.16	Orcon Corp.	225	0.67
Hearst Corp	300	0.99	Coca-Cola Bottling Company	225	0.67
Rapid Displays	300	0.99	Radisson Hotel	211	0.63
Hearst Communications	300	0.99	U.S. Pipe Foundry	211	0.63
<b>Total City Employment</b>	<b>30,300</b>		<b>Total City Employment</b>	<b>33,618</b>	

<b>CITY OF NEWARK<sup>(3)</sup></b>					
<u>Employer</u>	<u>2010</u>		<u>Employer</u>	<u>2001</u>	
	<u>Number of Employees</u>	<u>Percent of Total Employment</u>		<u>Number of Employees</u>	<u>Percent of Total Employment</u>
Newark Unified School Dist	700	3.44 %	Sun Microsystems	2,000	9.10 %
WorldPac	280	1.37	Ross Stores	1,000	4.55
Full Bloom Baking Company	280	1.37	Solectron Corp.	500	2.28
Risk Management Solutions	270	1.33	Hewlett Packard	450	2.05
Smart Modular Technologies	249	1.22	BT Office Products	365	1.66
Cargill Salt	182	0.89	Ingram Micro	320	1.46
City of Newark	176	0.86	ADVO	300	1.37
Valassis (formerly ADVO)	166	0.81	Nordstrom, Inc.	275	1.25
Staples (formerly Corporate Express)	154	0.76	Pacific Link	260	1.18
Home Depot	129	0.63	Cargill Salt	230	1.05
<b>Total City Employment</b>	<b>20,377</b>		<b>Total City Employment</b>	<b>21,975</b>	

Note: (1) Number of Employees and Percent of Total Employment unavailable for 2011.  
(2) Number of Employees and Percent of Total Employment unavailable for 2011.  
(3) Number of Employees and Percent of Total Employment unavailable for 2011.

Source: (1) Year 2010 - City of Fremont, CAFR FY 2009/10, Year 2001 - Fremont Chamber of Commerce, Oct 2000  
(2) Year 2010 - City of Union City, CAFR FY 2009/10, Year 2001 - Union City Chamber of Commerce, Oct 2000  
(3) Year 2010 - City of Newark, CAFR FY 2009/10, Year 2001 - City of Newark Economical Dev Div, Oct 2000  
Year 2001 Total City Employment - U.S. Department of Labor, Bureau of Labor Statistics

**Table 11**  
**ALAMEDA COUNTY WATER DISTRICT**  
**TEN YEAR SUMMARY OF DEMOGRAPHIC AND ECONOMIC STATISTICS (Unaudited)**  
**(in thousands)**

Calendar Year	Population As of 1/1 (1)	Personal Income (2)	Per Capita Personal Income (2)	Unemployment Rate (3)
2001	318	\$56,122	\$38	3.8 %
2002	323	55,317	38	5.3
2003	323	56,424	39	5.4
2004	322	59,339	41	4.6
2005	323	62,166	43	4.0
2006	324	66,325	46	3.5
2007	327	70,761	49	3.7
2008	330	73,160	50	4.9
2009	334	71,596	48	8.5
<b>2010</b>	<b>326</b>	<b>N/A</b>	<b>N/A</b>	<b>9.0</b>

Personal income and per capita personal income shown are for Alameda County. Data for Alameda County Water District's service area is not available.

Sources: (1) State of California, Department of Finance  
(2) U.S. Department of Commerce, Bureau of Economic Analysis  
(3) U.S. Department of Labor, Bureau of Labor Statistics

**Table 12**  
**ALAMEDA COUNTY WATER DISTRICT**  
**TEN YEAR SUMMARY OF PROPERTY, PLANT & EQUIPMENT (Unaudited)**  
**(in thousands)**

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
<b>UTILITY PLANT:</b>										
Land	\$ 9,658	\$ 9,594	\$ 9,594	\$ 9,628	\$ 9,668	\$ 9,654	\$ 9,677	\$ 9,701	\$ 9,725	\$ 9,725
Source of Supply	39,128	41,799	41,946	42,190	42,572	43,152	43,783	43,852	50,116	50,125
Pumping Plant	17,107	17,534	17,580	18,284	18,313	18,803	18,946	19,255	19,647	20,191
Water Treatment	79,823	88,904	89,059	109,157	114,030	114,777	115,024	115,833	138,112	151,445
Transmission and Distribution	187,157	192,584	200,209	205,417	211,317	218,371	219,098	228,418	235,460	244,864
General	19,432	19,779	24,771	27,781	32,613	33,274	33,818	34,661	35,909	37,234
Construction in Progress	30,663	39,556	53,788	36,846	31,112	34,908	42,788	49,281	21,570	12,265
	382,968	409,750	436,947	449,303	459,625	472,939	483,134	501,001	510,539	525,849
Less Accumulated Depreciation	115,080	123,166	132,188	141,019	149,976	161,939	168,605	178,051	189,258	199,863
<b>NET UTILITY PLANT</b>	<b>\$ 267,888</b>	<b>\$ 286,584</b>	<b>\$ 304,759</b>	<b>\$ 308,284</b>	<b>\$ 309,649</b>	<b>\$ 311,000</b>	<b>\$ 314,529</b>	<b>\$ 322,950</b>	<b>\$ 321,281</b>	<b>\$ 325,986</b>

Note:

Land: District owned land including easements and rights of way.

Source of Supply: covers all costs of plant used in connection with the source of water supply.

Pumping Plant: covers all costs of plant and equipment in connection with pumping operations.

Water Treatment: covers all costs of plant and equipment used in connection with water treatment operations.

Transmission and Distribution: includes all costs of plant and equipment used in connection with the transmission and distribution of water such as reservoirs, pipelines, meters and fire hydrants.

General: includes all costs of general plant and equipment used for general water utility purposes.

Construction in Progress: includes all costs incurred during construction for capital projects not yet completed or placed in service.

Excludes supplemental water supply storage.

Source: Alameda County Water District Finance Department

**Table 13**  
**ALAMEDA COUNTY WATER DISTRICT**  
**TEN YEAR SUMMARY OF WATER DEMAND**  
**(Unaudited)**

<u>Fiscal Year</u>	<u>Million Gallons Per Day (MGD)</u>
2001/02	45.35
2002/03	45.29
2003/04	46.45
2004/05	43.22
2005/06	44.23
2006/07	44.66
2007/08	43.80
2008/09	42.80
2009/10	38.43
<b>2010/11</b>	<b>38.52</b>

Source: Alameda County Water District Finance Department

## APPENDIX C

### FORM OF CONTINUING DISCLOSURE CERTIFICATE

#### ALAMEDA COUNTY WATER DISTRICT FINANCING DISTRICT WATER SYSTEM REFUNDING REVENUE BONDS, SERIES 2012

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the Alameda County Water District (the “Water District”), for and on behalf of itself and the Alameda County Water District Financing Authority (the “Agency”), in connection with the issuance of the above-named bonds (the “Bonds”). The Bonds are being issued pursuant to that certain Trust Agreement dated as of February 1, 2012 (the “Trust Agreement”), by and between the Agency and U.S. Bank National Association, as trustee (the “Trustee”) and a resolution (the “Resolution”) adopted by the Board of Directors of the Agency on January 12, 2012. The Water District covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Water District for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with Securities and Exchange Commission (“S.E.C.”) Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth in the Resolution, 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 Water District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“Beneficial Owner” shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

“Dissemination Agent” shall mean the Water District, or any successor Dissemination Agent designated in writing by the Water District and which has filed with the Water District a written acceptance of such designation.

“Holder” shall mean the person in whose name any Bond shall be registered.

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

“MSRB” shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

“Participating Underwriter” shall mean the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

**SECTION 3. Provision of Annual Reports.**

(a) The Water District shall, or shall cause the Dissemination Agent to, not later than seven months after the end of the Water District’s fiscal year (which shall be February 1 of each year, so long as the Water District’s fiscal year ends on June 30), commencing with the report for the 2011-12 fiscal year (which is due not later than February 1, 2013) provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided, that the audited financial statements of the Water 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 Water District’s fiscal year changes, it shall give notice of such change in a filing with the MSRB. The Annual Report shall be submitted on a standard form in use by industry participants or other appropriate form and shall identify the Bonds by name and CUSIP number.

(b) Not later than 15 business days prior to said date, the Water District shall provide the Annual Report to the Dissemination Agent (if other than the Water District). If the Water District is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the Water District shall, in a timely manner, send or cause to be sent to the MSRB a notice in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall (if the Dissemination Agent is other than the Water District) file a report with the Water District certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided to the MSRB.

**SECTION 4. Content of Annual Reports.** The Water District’s Annual Report shall contain or include by reference the following:

(a) Audited financial statements of the Water District for the preceding fiscal year, prepared in accordance with the laws of the State of California. If the Water District’s audited financial statements are not available by the time the Annual Report is required to be provided to the MSRB 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 provided to the MSRB in the same manner as the Annual Report when they become available.

To the extent not included in the audited financial statement of the Water District, the Annual Report shall also include the following:

- (b) The total number of accounts during the previous fiscal year (as measured by meters installed) in the form of Table 1 of the Official Statement.
- (c) The ten largest distribution water accounts during the previous fiscal year estimated according to annualized calendar year billings in the form of Table 2 of the Official Statement.
- (d) The Water District's current bi-monthly water charge in the form of Table 3 of the Official Statement.
- (e) Revenues from connection fees during the most recent fiscal year in the form of Table 5.
- (f) Any additional indebtedness incurred during the prior fiscal year which is payable from revenues of the Water System on a parity with the Bonds.
- (g) Total Net Revenues received by the Water District during the prior fiscal year, and the amount of debt service coverage provided thereby (expressed as a percentage of total Net Revenues to total debt service on the Bonds and any parity debt in such fiscal year).

SECTION 5. Reporting of Significant Events.

(a) The Water District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not later than ten business days after the occurrence of the event:

1. Principal and interest payment delinquencies;
2. Unscheduled draws on debt service reserves reflecting financial difficulties;
3. Unscheduled draws on credit enhancements reflecting financial difficulties;
4. Substitution of credit or liquidity providers, or their failure to perform;
5. Issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);
6. Tender offers;
7. Defeasances;
8. Rating changes; or
9. Bankruptcy, insolvency, receivership or similar event of the obligated person.



Note: for the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) The Water District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material, in a timely manner not later than ten business days after the occurrence of the event:

1. Unless described in paragraph 5(a)(5), adverse tax opinions or other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;
2. Modifications to rights of Bond holders;
3. Optional, unscheduled or contingent Bond calls;
4. Release, substitution, or sale of property securing repayment of the Bonds;
5. Non-payment related defaults;
6. The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; or
7. Appointment of a successor or additional trustee or the change of name of a trustee.

(c) Whenever the Water District obtains knowledge of the occurrence of a Listed Event described in Section 5(b), the Water District shall determine if such event would be material under applicable federal securities laws.

(d) If the Water District learns of the occurrence of a Listed Event described in Section 5(a), or determines that knowledge of a Listed Event described in Section 5(b) would be material under applicable federal securities laws, the Water District shall within ten business days of occurrence file a notice of such occurrence with MSRB. Notwithstanding the foregoing,

notice of the Listed Event described in subsections (a)(7) or (b)(3) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Trust Agreement.

SECTION 6. Format for Filings with MSRB. Any report or filing with the MSRB pursuant to this Disclosure Certificate must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB.

SECTION 7. Termination of Reporting Obligation. The Water 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 Water District shall give notice of such termination in a filing with the MSRB.

SECTION 8. Dissemination Agent. The Water 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 Dissemination 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 Water District pursuant to this Disclosure Certificate. The initial Dissemination Agent shall be the Water District.

SECTION 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Water District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a) or (b), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the Water District shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Water District. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in a filing with the MSRB, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if

feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Water 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 required to be filed pursuant to this Disclosure Certificate, in addition to that which is required by this Disclosure Certificate. If the Water District chooses to include any information in any Annual Report or notice in addition to that which is specifically required by this Disclosure Certificate, the Water 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 or any other event required to be reported.

SECTION 11. Default. In the event of a failure of the Water District to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Water District to comply with its obligations under this Disclosure Certificate; provided, that any such action may be instituted only in Superior Court of the State of California in and for the County of Alameda or in U.S. District Court in or nearest to the County. The sole remedy under this Disclosure Certificate in the event of any failure of the Water District to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Water 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.

Date: \_\_\_\_\_, 2012.

ALAMEDA COUNTY WATER DISTRICT

By \_\_\_\_\_  
General Manager

**CONTINUING DISCLOSURE EXHIBIT A**

**FORM OF NOTICE TO THE MUNICIPAL SECURITIES RULEMAKING BOARD  
OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: Alameda County Water District  
Name of Bond Issue: Alameda County Water District Financing Authority Water System  
Revenue Bonds, Series 2012  
Date of Issuance: \_\_\_\_\_, 2012

NOTICE IS HEREBY GIVEN that the Water District has not provided an Annual Report with respect to the above-named Bonds as required by Section 4 of the Continuing Disclosure Certificate of the Issuer, dated the Date of Issuance. [The Issuer anticipates that the Annual Report will be filed by \_\_\_\_\_.]

Dated: \_\_\_\_\_

ALAMEDA COUNTY WATER DISTRICT

By \_\_\_\_\_ [to be signed only if filed]

## APPENDIX D

### INFORMATION ON THE WATER DISTRICT'S SERVICE AREA

The Alameda County Water District (the "Water District") covers approximately 100 square miles in southwestern Alameda County. The Water District includes the City of Union City and most of the incorporated boundaries of the City of Fremont and the City of Newark (collectively, the "Cities"). The center of the Water District is located about 30 miles south of Oakland and 35 miles southeast of San Francisco.

The Water District forms part of the highly urbanized and industrialized East Bay, which in turn is part of the nine-county San Francisco Bay Area. Two main line railroads serve the Water District. Stations of the Bay Area Rapid Transit District (BART) are located at Fremont and Union City, providing convenient transportation for Water District residents to points in Alameda, Contra Costa, San Mateo and San Francisco Counties. Connecting bus lines serve Marin and Santa Clara Counties from BART terminals.

The Water District's economy is based largely on manufacturing and distribution. Access to highly developed transportation facilities has resulted in the development of numerous distribution plants. A number of nurseries, orchards and vegetable farms throughout the Water District provide an agricultural base. The Water District has benefited from the rapid growth in southern Alameda County, discussed in the following sections of this Appendix.

#### Population

The Water District serves virtually all of the developed areas of Fremont, Newark and Union City. The combined population of these three Cities as of January 1, 2011 totaled 328,325, according to estimates by the State Department of Finance.

#### POPULATION GROWTH, 2002-2011 County of Alameda

Year	County of Alameda	
	Population	% Change
2002	1,467,063	-----
2003	1,467,892	0.06
2004	1,466,407	- 0.10
2005	1,462,736	- 0.25
2006	1,462,371	- 0.02
2007	1,470,622	0.56
2008	1,484,085	0.92
2009	1,497,799	0.92
2010	1,509,240	0.76
2011	1,521,157	0.79

*Source: California Department of Finance for January 1.*

**POPULATION DATA FOR THE CITIES**

<u>Year</u>	<u>City of Fremont</u>	<u>City of Newark</u>	<u>City of Union City</u>
2007	211,006	43,556	72,072
2008	213,124	43,793	73,269
2009	215,636	44,035	73,977
2010	213,659	42,589	69,539
2011	215,711	42,764	69,850

*Source: California Department of Finance for January 1.*

**Employment**

The following table summarizes wage and salary employment in the County from 2006 to 2010. Total wage and salary employment within the County decreased by .1% between 2006 and 2010. Services and government are the largest employment sectors in the County.

**ANNUAL AVERAGE WAGE AND SALARY EMPLOYMENT  
Alameda County  
2006-2010<sup>(1)</sup>**

<u>Industry</u>	<u>Employment<sup>(2)</sup></u>				
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Total Farm	800	800	700	700	700
Manufacturing	75,600	73,700	72,300	64,100	60,500
Services	581,800	584,700	578,900	549,300	545,900
Wholesale Trade	39,700	39,600	38,900	35,900	34,500
Retail Trade	69,300	68,900	65,800	60,900	59,800
Transportation, Warehousing and Utilities	26,600	28,500	27,100	24,900	24,000
Finance and Insurance	24,700	23,000	20,500	13,100	13,700
Government	133,100	131,700	124,600	121,200	118,200
<b>Total</b>	<b>951,600</b>	<b>950,900</b>	<b>928,800</b>	<b>870,100</b>	<b>857,300</b>

<sup>(1)</sup> Most recent data available.

<sup>(2)</sup> Employment is reported by place of work; it does not include persons involved in labor-management disputes. Figures are rounded to the nearest hundred.

Source: California Employment Development Department.

The following table summarizes civilian labor force, employment and unemployment in the County from 2006 to 2010. The County's civilian labor force was 3% greater in 2010 than in 2006. The County's employed labor force decreased by 5% from 2006 to 2010.

The unemployment rate in the County for 2010 was 11.3%. In contrast, the average unemployment rate in California for 2010 was 12.4%.

**CIVILIAN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT**  
**Alameda County**  
**Annual Averages, 2006-2010**

Year	Civilian Labor Force	Employed Labor Force <sup>(1)</sup>	Unemployed Labor Force <sup>(2)</sup>	Unemployment Rate <sup>(3)</sup>
2006	735,700	703,000	32,600	4.4%
2007	746,700	711,700	35,000	4.7
2008	757,100	710,600	46,500	6.1
2009	761,000	681,000	80,000	10.5
2010	755,500	670,000	85,500	11.3

<sup>(1)</sup> Includes persons involved in labor-management trade disputes.

<sup>(2)</sup> Includes all persons without jobs who are actively seeking work.

<sup>(3)</sup> The unemployment rate is computed from unrounded data; therefore, it may differ from rates computed from rounded figures in this table.

Source: California Employment Development Department.



## LARGEST EMPLOYERS WITHIN THE WATER DISTRICT

Employer	Type of Business	Employment
<b>Fremont:</b>		
Fremont Unified School District	Education	3,000
Washington Hospital	Healthcare	1,817
Boston Scientific/Target Therapeutics, Inc.	Medical Device Manufacturer	1,200
Western Digital	External Hard Drive Manufacturer	1,200
Seagate Magnetics	Research & Development Engineering	1,060
AXT Incorporated	Semiconductor Equipment Manufacturing	972
Lam Research Corporation	Semiconductor Equipment Manufacturing	920
City of Fremont	Municipal Government	848
DMS Facility Services, Inc.	Facility Services	800
Solyndra <sup>(1)</sup>	Solar Panel Manufacturer	800

*Source: City of Fremont, Comprehensive Annual Financial Report, June 2011.*

<b>Newark<sup>(2)</sup>:</b>		
Newark Unified School District	Education	700
WorldPac	Auto Parts Distribution	280
Full Bloom Baking Company	Food Manufacturer	280
Risk Management Solutions	Risk Management	270
Smart Modular Technologies	Memory Module Manufacturer	249
Cargill Salt	Salt Manufacturer	182
City of Newark	Municipal Government	176
Valassis (formerly ADVO)	Bulk Mailing Facility	166
Staples (formerly Corporate Express)	Office Furniture Sales/Distribution	154
Home Depot	Home Improvement Sales	129

*Source: City of Newark, Comprehensive Annual Financial Report, June 2010.*

<b>Union City<sup>(3)</sup>:</b>		
Axygen Bioscience Inc.	Laboratory Manufacturer	1,200
New Haven Unified School District	Education	1,139
Wal-Mart	Retailer	500
Young's Market Co. LLC	Liquor Distributor	400
City of Union City	Municipal Government	353
American Licorice	Candy Manufacturing	350
Southern Wine & Spirit	Liquor Distributor	350
Hearst Corp.	Newspaper Printer	300
Rapid Displays	Merchandising Display Manufacturer	300
Hearst Communications Inc.	Newspaper Printer	300

*Source: City of Union City, Comprehensive Annual Financial Report, June 2010.*

<sup>(1)</sup> The Water District does not expect that the closure of Solyndra Inc. will have a material adverse impact on the finances or operations of the Water District.

<sup>(2)</sup> Most recent data available.

<sup>(3)</sup> Most recent data available.

## Commerce

Retail sales in the Cities accounted for 18.8% of the total retail sales in the County in 2009. The following tables show annual taxable sales in the Cities and the County from 2005 to 2009.

**TAXABLE SALES**  
**County of Alameda**  
**(Dollars in Thousands)**  
**2005-2009<sup>(1)(2)</sup>**

	2005	2006	2007	2008	2009
Apparel	\$ 625,984	\$ 641,261	\$ 666,247	\$ 747,645	\$ 813,243
General Merchandise	2,087,101	2,236,412	2,292,279	2,126,734	2,044,573
Food Stores	744,339	759,659	801,916	780,311	706,204
Eating and Drinking	1,709,868	1,832,279	1,953,544	1,989,406	1,925,171
Home Furnishings & Appliances	843,587	843,210	811,390	823,075	975,547
Building Materials	1,581,211	1,597,911	1,504,738	1,309,455	1,020,603
Motor Vehicles and Parts	2,987,795	2,934,975	2,912,074	2,329,408	1,949,009
Service Stations	1,518,337	1,671,074	1,831,042	2,030,681	1,491,427
Other Retail Stores	3,130,260	3,139,633	2,891,710	2,411,035	1,715,647
<b>Total Retail Stores</b>	<b>\$15,228,482</b>	<b>\$15,656,414</b>	<b>\$15,664,940</b>	<b>\$14,547,749</b>	<b>\$12,641,415</b>
Business and Personal Services <sup>(3)</sup>	1,061,582	1,115,465	1,068,985	959,945	--
All Other Outlets	7,952,917	8,451,505	9,097,215	8,355,262	7,788,780
<b>Total All Outlets</b>	<b>\$24,242,981</b>	<b>\$25,223,384</b>	<b>\$25,831,140</b>	<b>\$23,862,957</b>	<b>\$20,430,195</b>
Annual Percentage Change	--	4.0%	2.4%	-7.6%	-14.4%

<sup>(1)</sup> Most recent data available.

<sup>(2)</sup> Numbers may not add up due to rounding.

<sup>(3)</sup> Business and Personal Services information unavailable for 2009.

Source: California State Board of Equalization.

The table below provides a history of outlets and taxable sales for the past five years in each of the Cities.

**TAXABLE TRANSACTIONS**  
**ALAMEDA COUNTY WATER DISTRICT CITIES**  
**(Dollars in Thousands)**  
**2005-2009<sup>(1)</sup>**

Calendar Year	City of Fremont		City of Newark		City of Union City	
	Permits	Sales	Permits	Sales	Permits	Sales
2005	5,419	\$2,647,214	1,226	\$1,050,621	1,143	\$714,523
2006	5,220	2,915,868	1,181	956,485	1,164	764,379
2007	5,110	3,142,082	1,178	891,029	1,193	805,408
2008	5,053	2,987,231	1,181	831,040	1,177	797,288
2009	4,713	2,446,240	1,087	706,336	1,112	687,658

<sup>(1)</sup> Most recent data available.

Source: California State Board of Equalization.

## Construction

Construction activity in the County is summarized in the following tables with respect to building permit valuations and number of dwelling units constructed.

**BUILDING PERMITS AND VALUATIONS**  
**County of Alameda**  
**2007-2011**

	2007	2008	2009	2010	2011
Valuation (\$000):					
Residential	\$1,079,746	\$725,645	\$554,375	\$677,407	\$ 703,514
Non-residential	890,775	810,431	597,984	564,652	598,128
Total	<u>\$1,970,521</u>	<u>\$1,536,076</u>	<u>\$1,152,357</u>	<u>\$1,242,059</u>	<u>\$1,301,642</u>
Residential Units:					
Single family	1,340	761	802	907	722
Multiple family	1,911	1,296	536	936	1,293
Total	<u>3,251</u>	<u>2,057</u>	<u>1,338</u>	<u>1,843</u>	<u>2,015</u>

Source: Construction Industry Research Board.

The table below summarizes annual building permit activity for the Cities since 2007.

**BUILDING PERMIT VALUATION  
2007-2011**

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
<b>CITY OF FREMONT:</b>					
Residential	\$151,896,502	\$119,381,813	\$105,622,787	\$112,422,312	\$122,982,165
Nonresidential	158,825,585	169,415,926	193,198,074	228,706,754	116,353,391
Total	<u>\$310,722,087</u>	<u>\$288,797,739</u>	<u>\$298,820,861</u>	<u>\$341,129,066</u>	<u>\$239,335,556</u>
<b>No. of New Dwelling Units:</b>					
Single	188	171	221	100	125
Multiple	217	110	76	215	379
Total	<u>405</u>	<u>281</u>	<u>297</u>	<u>315</u>	<u>504</u>
<b>CITY OF NEWARK:</b>					
Residential	\$ 9,869,881	\$ 7,773,081	\$ 5,055,000	\$ 3,787,227	\$ 2,804,328
Nonresidential	12,304,000	13,632,887	44,552,078	13,473,741	26,627,871
Total	<u>\$22,173,881</u>	<u>\$21,405,968</u>	<u>\$49,607,078</u>	<u>\$17,260,968</u>	<u>\$29,432,199</u>
<b>No. of New Dwelling Units:</b>					
Single	6	1	0	0	0
Multiple	0	0	0	0	0
Total	<u>6</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>CITY OF UNION CITY:</b>					
Residential	\$101,909,745	\$10,033,794	\$5,146,397	\$19,738,829	\$10,726,147
Nonresidential	31,739,556	50,818,427	11,953,404	5,790,009	8,108,233
Total	<u>\$133,649,301</u>	<u>\$60,852,221</u>	<u>\$17,099,801</u>	<u>\$25,528,838</u>	<u>\$18,834,380</u>
<b>No. of New Dwelling Units:</b>					
Single	165	19	8	2	2
Multiple	417	2	0	100	57
Total	<u>582</u>	<u>21</u>	<u>8</u>	<u>102</u>	<u>59</u>

Source: Construction Industry Research Board.

**Education**

Public educational services in the Water District are provided by the Fremont Unified School District, the Newark Unified School District and the New Haven Unified School District (Union City area). Each of these school systems provides instruction from kindergarten through high school. There are also several continuing education and higher learning schools in the Water District.

## **Utilities**

Utility services in the Water District are furnished by the following:

Gas and Electricity Service: Pacific Gas and Electric Co.  
Telephone: AT&T  
Water: Alameda County Water District  
Sewer: Union Sanitary District  
Cable: Comcast

## **City of Fremont**

Located on the southeast side of the San Francisco Bay, Fremont is a city of over 215,000 people with an area of 92-square miles, making it the fourth most populous city in the Bay Area and California's fifth largest city in area.

The City of Fremont was incorporated January 23, 1956 as a general law city, combining the former communities of Centerville, Irvington, Mission San Jose, Niles and Warm Springs into one City. The City is named after General John G. Fremont.

Fremont has the council-manager form of government. The City Council, including four Councilmembers and the Mayor, is elected by citizens of Fremont, adopts the City's budget and makes all major policy decisions. The City Council appoints a City Manager, who hires all City staff and manages the day-to-day business of the City. Advisory bodies advise the City Council and identify issues before the Council makes final decisions.

Fremont has extensive open space. The western quarter of the City is part of the San Francisco Bay National Wildlife Refuge, and the eastern quarter is located in virtually undeveloped hills. There are 22 miles of San Francisco Bay shoreline within the City limits. The 412-acre Central Park includes Lake Elizabeth and the Civic Center, which provide a unique civic and recreational complex in the center of the City.

## **City of Newark**

Situated in the west central part of the Water District, Newark has been a center of salt production since 1852. Like the other two cities served by the Water District, Newark has a well-developed industrial base. The City was incorporated September 22, 1955 and operates a general law city under California statutes. It is located in the San Francisco East Bay Area, with the cities of Fremont and Union City as neighbors. The City's current population is approximately 43,000, with the workday population exceeding 100,000. The area encompassed by the incorporated City of Newark is approximately 13 square miles.

The City employs the council-manager form of government, with four councilmen elected at large to serve four-year overlapping terms. The Mayor is directly elected for a two-year term.

Newark has a diversified industrial and retail-based economy. There are several manufacturing plants in the community area. Leading manufacturers include food,

memory modules, salt processing, glass products, food processing and electronic components. Newark is home to one of Alameda County's major shopping malls, NewPark Mall, as well as an auto mall.

### **City of Union City**

Union City is the site of the first successful beet sugar mill in the United States. The mill closed in 1975 after 106 years of operation. Today Union City is a growing industrial and residential city, and it is home to a growing number of retail outlets, including the highly popular Union Landing Shopping Plaza, which is anchored by the Century 25 theater complex, one of the top grossing multiplexes in the country.

Union City was incorporated January 13, 1959 as a general law city, combining the former communities of Alvarado and Decoto, with a Council/Manager form of government. The City Council consists of the mayor and four council members elected from the city at large, rather than by district, each for four-year terms.

The City has a population of approximately 70,000 people. Within the City are 1,497 acres zoned for industry, including Union City-Alvarado Industrial Park, Central Bay Industrial Park and Union City Industrial Park. Several manufacturing plants in the City produce a wide variety of products, led by food processing and metal processing. The City is also an important distribution center by virtue of its location on two main-line railroads, the heavily-traveled Highway 880, and its proximity to the Hayward-San Mateo Bridge leading to the San Francisco Peninsula. It is 18 square miles in size and bounded by the City of Hayward to the north and west and by the City of Fremont to the south and east.

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**APPENDIX E**

**PROPOSED FORM OF OPINION OF BOND COUNSEL**

[Closing Date]

Alameda County Water District Financing Authority  
Fremont, California

Alameda County Water District Financing Authority  
Water System Revenue Bonds, Series 2012  
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the Alameda County Water District Financing Authority (the "Agency") in connection with the issuance of \$ \_\_\_\_\_ aggregate principal amount of Alameda County Water District Financing Authority Water System Revenue Bonds, Series 2012 (the "Bonds"), issued pursuant to the Trust Agreement, dated as of February 1, 2012 (the "Trust Agreement"), between the Agency and U.S. Bank National Association, as trustee (the "Trustee"). The Bonds are secured by a pledge of Revenues, consisting of installment payments to be made by the Alameda County Water District (the "Water District"), pursuant to the 2012 Installment Purchase Contract, dated as of February 1, 2012 (the "2012 Installment Purchase Contract"), by and between the Water District and the Agency. Capitalized terms not otherwise defined herein shall have the meanings set forth in the Trust Agreement.

In such connection, we have reviewed the Trust Agreement, the 2012 Installment Purchase Contract, the Tax Certificate of the Agency, dated the date hereof (the "Tax Certificate"), opinions of counsel to the Agency, the Water District, and the Trustee, certificates of the Agency, the Water District, the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date



Alameda County Water District Financing Authority

[Closing Date]

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hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Agency or the Water District. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Trust Agreement, the 2012 Installment Purchase Contract and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Trust Agreement, the 2012 Installment Purchase Contract and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against joint powers authorities or county water districts, as applicable, in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, arbitration, judicial reference, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the assets described in or as subject to the lien of the Trust Agreement or the 2012 Installment Purchase Contract or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such assets. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

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

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

Alameda County Water District Financing Authority

[Closing Date]

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2. The Trust Agreement has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Agency. The Trust Agreement creates a valid pledge, to secure the payment of the principal of and interest on the Bonds, of the Revenues and any other amounts (including proceeds of the sale of the Bonds) held by the Trustee in any fund or account established pursuant to the Trust Agreement (other than amounts on deposit in the Rebate Fund), subject to the provisions of the Trust Agreement permitting the application thereof for the purposes and on the terms and conditions set forth in the Trust Agreement.

3. The 2012 Installment Purchase Contract has been duly executed and delivered by the Water District and the Agency, and constitutes the valid and binding obligation of the Water District and the Agency. The obligation of the Water District to make the 2012 Installment Payments (as that term is defined in the 2012 Installment Purchase Contract) in accordance with the terms of the 2012 Installment Purchase Contract is a valid and binding special obligation of the Water District, payable solely from Net Revenues (as that term is defined in the 2012 Installment Purchase Contract).

4. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

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## APPENDIX F

### BOOK-ENTRY ONLY SYSTEM

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Bonds in the initial aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market 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 a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee; Cede & Co. or such other name as

may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

Redemption notices will be sent to DTC. If less than all of the Bonds with a particular stated maturity are being prepaid, DTC's practice is to determine by lot the amount of the interest of each Direct Payment in such Bonds to be prepaid.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Agency 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 the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Agency or the Trustee on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Trustee or the Agency, 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 Agency or the Trustee; disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Agency or the Trustee. Under such circumstances, in

the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Agency believes to be reliable, but the Agency takes no responsibility for the accuracy thereof.

The Agency cannot and does not give any assurances that DTC Direct Participants or Indirect Participants or others will distribute payments with respect to the Bonds received by DTC or its nominee as the registered Owner, or any redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or that DTC will service and act in the manner described in this Official Statement.

The Agency and the Trustee cannot and do not give any assurances that DTC will distribute to Participants, or that Participants or others will distribute payments of principal interest or any premium with respect to the Bonds paid to DTC or its nominee as the registered Owner, or any redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. The Agency and the Trustee are not responsible or liable for the failure of DTC or any Participants to make any payment or give any notice to a Beneficial Owner with respect to the Bonds or any error or delay relating thereto.

The foregoing description of the procedures and record-keeping with respect to beneficial ownership interests in the Bonds, payment of principal, interest and other payments with respect to the Bonds to Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interests in such Bonds and other related transactions by and between DTC, the Participants and the Beneficial Owners is based on information provided by DTC. Accordingly, the Agency takes no responsibility for the accuracy or completeness thereof. So long as the Bonds are in book-entry only form, the references in the Official Statement to the Owners or the registered Owners of the Bonds shall mean DTC, and not the Beneficial Owners of the Bonds.

Discontinuance of DTC Service. In the event that (a) DTC determines not to continue to act as securities depository for the Bonds, or (b) the Agency determines to remove DTC from its functions as a depository, DTC's role as securities depository for the Bonds and use of the book-entry system will be discontinued. If the Agency fails to select a qualified securities depository to replace DTC, the Agency will cause the Trustee to execute and deliver new Bonds in fully registered form in such denominations numbered in the manner determined by the Trustee and registered in the names of such persons as are requested by the Beneficial Owners thereof. Upon such registration, such persons in whose names the Bonds are registered will become the registered Owners of the Bonds for all purposes.

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FOR ADDITIONAL BOOKS: [ELABRA.COM](http://ELABRA.COM) OR (888) 935-2272