BANK QUALIFIED

Diablo Water District
(Contra Costa County, California)
2010 Water Revenue Certificates of Participation
$4,200,000

New Issue: Book-Entry Only

Rating: Standard & Poor's "AA-"

Due: January 1, as shown below

Dated: Date of Delivery

Tax Exemption: Interest represented by the Certificates is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes. Page 28.

Security: The Certificates are Special Obligations of the District payable solely from Net Revenues of the District and certain other legally available funds. Net Revenues consist of gross revenues less operating and maintenance expenses. Page 6.

Prepayment: The Certificates are subject to optional prepayment prior to their stated date of maturity. Page 3.

Purpose: Proceeds of the Certificates will be used to help finance certain capital improvements to the District's water system. Page 7.

Interest Payment Dates: January 1 and July 1, beginning January 1, 2011.

Closing: On or about May 6, 2010.

Denominations: $5,000 or multiple thereof.

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

Bond Counsel: Jones Hall, A Professional Law Corporation, San Francisco, California.

District Attorney: Jeffrey D. Polisner, Lafayette, California.

Financial Advisor: Bartle Wells Associates, Berkeley, California.

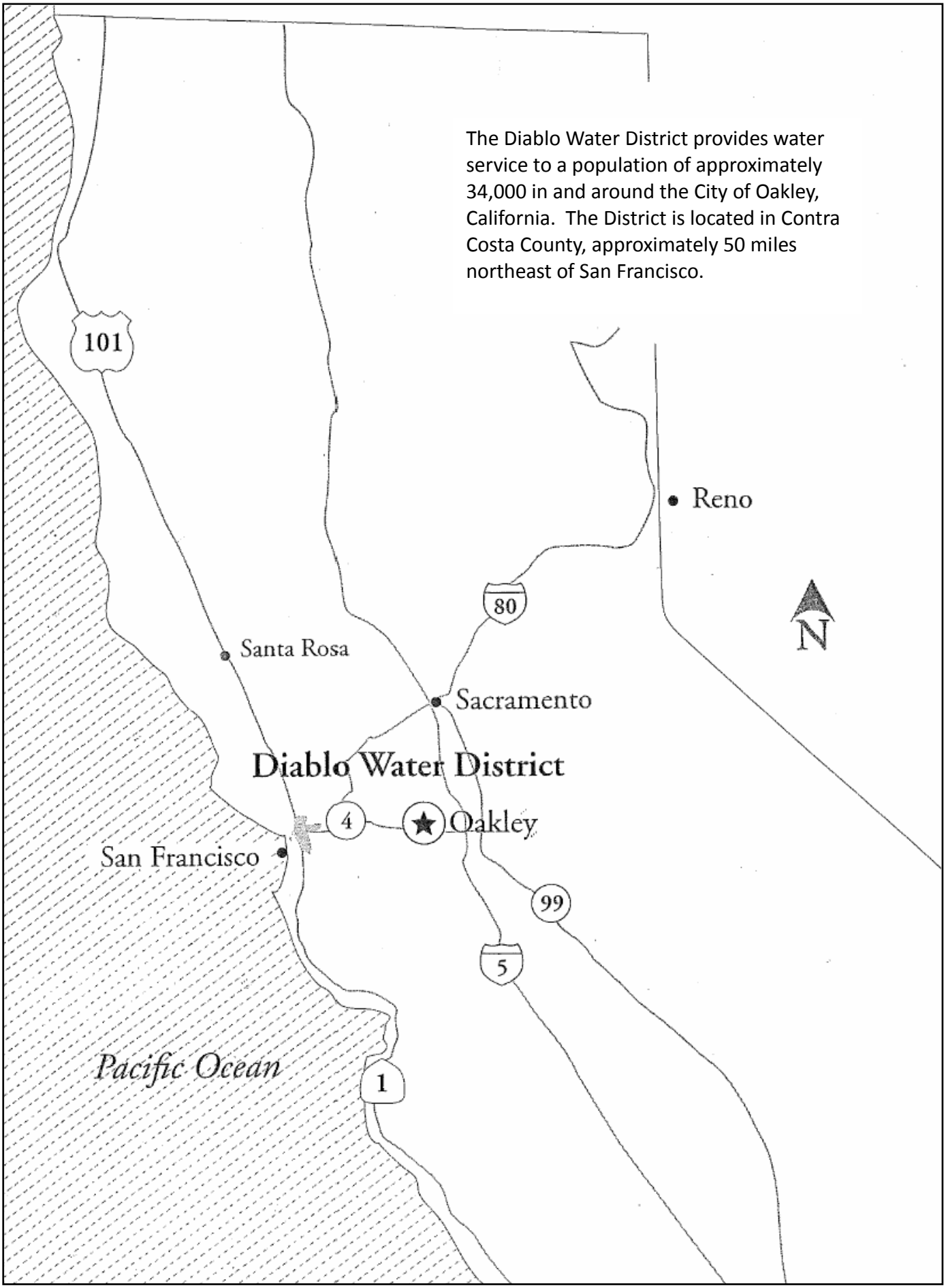
Maturity Schedule

Year January 1	Principal Amount	Interest Rate	Price or Yield	CUSIP 25245A	Year January 1	Principal Amount	Interest Rate	Price or Yield	CUSIP 25245A
2011	$110,000	2.000%	0.500%	AA7	2022	$150,000	4.000%	100	AM1
2012	115,000	2.000%	0.875%	AB5	2023	155,000	4.000%	4.100%	AN9
2013	115,000	2.000%	1.300%	AC3	2024	165,000	4.125%	4.200%	AP4
2014	115,000	2.500%	1.700%	AD1	2025	170,000	4.250%	4.300%	AQ2
2015	120,000	3.000%	2.100%	AE9	2026	175,000	4.375%	100	AR0
2016	125,000	4.000%	2.550%	AF6	2027	185,000	4.375%	4.450%	AS8
2017	125,000	4.000%	2.900%	AG4	2028	195,000	4.500%	4.520%	AT6
2018	130,000	4.000%	3.150%	AH2	2029	200,000	4.500%	4.600%	AU3
2019	135,000	4.000%	3.400%	AJ8	2030	210,000	4.625%	4.680%	AV1
2020	140,000	4.000%	3.600% *	AK5	2031	220,000	4.750%	100	AW9
2021	145,000	4.000%	3.800% *	AL3					

$1,000,000 5.00% Term Certificate due January 1, 2035 Yield 4.875% Price 100.867* CUSIP 25245A AX7

* Priced to January 1, 2019 call date.

This Official Statement is dated April 27, 2010.


The Diablo Water District provides water service to a population of approximately 34,000 in and around the City of Oakley, California. The District is located in Contra Costa County, approximately 50 miles northeast of San Francisco.
101
Reno
80
N
Santa Rosa
Sacramento
Diablo Water District
4
Oakley
San Francisco
99
5
Pacific Ocean
1

OFFICIAL STATEMENT

Diablo Water District
2107 Main Street
Oakley, California 94561

Formed 1953

District Board of Directors
Howard Hobbs, *President*
Richard R. Head, *Vice President*
Kenneth J. Crockett, *Director*
Enrico Cinquini, *Director*
Edward Garcia, *Director*

District Administration
Mike Yeraka, *General Manager*

Professional Services
Jeffrey D. Polisner, Lafayette, District Attorney
Jones Hall, A Professional Law Corporation, San Francisco, Bond Counsel
Bartle Wells Associates, Berkeley, Financial Advisor
Union Bank, N.A., San Francisco, Trustee

This Official Statement provides information about the District and the Certificates. The official statement includes:

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

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

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INTRODUCTION

Diablo Water District: The Diablo Water District provides water service to a population of approximately 34,000 in and around the City of Oakley, California. The District is located in the northeastern corner of Contra Costa County, about 50 miles northeast of San Francisco. The District was created in 1953. The City of Oakley was incorporated in 1999. The District provides water service to residential and nonresidential customers within a defined sphere of influence that includes the City of Oakley, a portion of Bethel Island, and small portions of the Cities of Antioch and Brentwood. The District is governed by a five-member board of directors elected at large for overlapping four-year terms.

Purpose: Proceeds of the Certificates will be used to help finance improvements to the District's water system including: a) a new well with related pump station and pipelines project which will add to the District's groundwater supply and reduce the reliance on surface water supply, and b) a new reservoir with 5 million gallons of surface water storage capacity.

Security: Each Certificate evidences and represents a direct, undivided fractional interest in the installment payments to be made by the District under the Installment Sale Agreement. The payment of installment payments is secured by a first and prior lien on the net revenues of the District's water enterprise. The District's obligation to make the installment payments from net revenues is absolute and unconditional.

The District covenants that, as long as the Certificates are outstanding, it will fix and collect rates, fees, and charges for water service which will produce gross revenue in each fiscal year sufficient to:

- pay the operating and maintenance costs, the installment payments, and principal and interest on any parity debt and other District obligations payable from gross revenues,
- restore the balance in the reserve fund to the reserve requirement, and
- generate net revenues at least equal to at least 125 percent of annual installment payments on the Certificates and payments on parity debt, provided that for purposes of computing this coverage test, net revenues may include revenues received from transfers from a rate stabilization fund.

A reserve fund will be funded from the proceeds of the Certificates in the amount of maximum annual debt service on the Certificates. The District currently maintains a $1,000,000 rate stabilization fund which may be used at any time for the purpose of augmenting gross revenues. The District may deposit amounts in the rate stabilization fund from any legally available funds.

Prior Parity Obligations: The District has one outstanding parity obligation. On March 8, 2005, the District issued $7,500,000 of Water Revenue Certificates of Participation, Series 2005 (the "2005 Certificates"). The 2005 Certificates mature on January 1 of each year through final maturity on January 1, 2030. Currently, $6,525,000 of principal remains outstanding. The 2005 Certificates were structured with approximately level annual debt service payments. Average

annual debt service on outstanding maturities is approximately $494,000 per fiscal year. The principal and interest payments for 2005 Certificates are insured by Syncora Guarantee Inc. (formerly XL Capital Assurance Inc.) The trustee for the 2005 Certificates maintains a cash-funded debt service reserve fund equal to maximum annual debt service on the 2005 Certificates. Such reserve fund secures only the 2005 Certificates, and is not available for payment of principal and interest represented by the Certificates.

This introduction is not a summary of the Official Statement. Information presented in this section is treated more completely elsewhere in the official statement, which should be read in its entirety. The Official Statement speaks only as of its date. Basic documents referred to in the Official Statement are available from the financial advisor prior to the closing and from the District thereafter.

THE CERTIFICATES

Description of the Certificates

Name: Diablo Water District
2010 Water Revenue Certificates of Participation
$4,200,000

Dated: As of the date of delivery.

Denomination: $5,000 or multiple thereof.

Maturities: January 1, 2011 through 2031.

Interest: Interest is payable January 1 and July 1 of each year to the respective dates of maturity of the Certificates, beginning January 1, 2011.

Payment: The Certificates will be executed, sold, and delivered in fully registered form, without coupons. The Certificates will be registered in the name of Cede & Co., as nominee of the Depository Trust Company (DTC), New York, New York, as the initial securities depository for the Certificates. Ownership interests in the Certificates may be purchased in book-entry form only. Purchasers of the Certificates will not receive certificates representing their ownership interests in the Certificates purchased. Principal and interest payments with respect to the Certificates are payable directly to DTC by the trustee. Upon receipt of payments of principal and interest, DTC will in turn distribute such payments to the beneficial owners of the Certificates. See Appendix F.

Optional Prepayment: The Certificates maturing on or before January 1, 2019 are not subject to optional prepayment prior to maturity. The Certificates maturing on or after January 1, 2020, are subject to prepayment at the option of the District on any date on or after January 1, 2019, as a whole or in part, from any source of available funds, at a prepayment price equal to 100 percent of the principal amount of the Certificates to be prepaid, without premium, plus accrued interest to the date of prepayment.

Prepayment from Net Proceeds of Insurance or Condemnation: The Certificates are subject to mandatory prepayment in part or in whole on any date from the net proceeds of insurance or eminent domain proceedings, at a prepayment price equal to the principal amount to be prepaid, without premium, plus accrued interest to the prepayment date.

Mandatory Sinking Fund Prepayment: The Certificates maturing on January 1, 2035 are subject to mandatory sinking fund prepayment on January 1 in each year on or after January 1, 2032, by lot, in integral multiples of $5,000, at a prepayment price equal to the principal amount thereof, without premium, together with accrued interest to the date of prepayment, from the principal component of the Installment Payments to be made by the District pursuant to the Installment Sale Agreement with respect to each such prepayment date as follows:

$1,000,000 Certificates Maturing January 1, 2035

Due January 1 of Year	Principal Amount of Certificates to be Prepaid
2032	$230,000
2033	245,000
2034	255,000
2035 (Maturity)	270,000

Purpose of the Certificates

Proceeds of the Certificates will be used to help finance certain capital improvements to the District's water system. See 'The Project' herein. Proceeds will also be used to fund a reserve fund and pay costs of issuance incurred in connection with the issuance of the Certificates.

Anticipated Sources and Uses of Funds

The following table lists the anticipated sources and uses of funds for the Certificates.

SOURCES	
Principal Amount of the Certificates	$4,200,000.00
Original Issue Premium	49,586.20
Total Sources	4,249,586.20
USES	
Project Fund	$3,818,000.00
Reserve Fund	287,993.75
Underwriter's Discount	52,421.75
Issuance Costs*	91,170.70
Total Uses	4,249,586.20

* Includes costs for bond counsel, financial advisor, rating agency fee, trustee, printing, distribution, and other miscellaneous costs.

Debt Service Schedule

The table on the following page shows a schedule of annual installment payments for the Certificates along with parity debt service.

Payment	2005 Certificates			2010 Certificates			Fiscal Year
Date	Principal	Interest	Total	Principal	Interest	Total	Total
07/01/10		137,239.38	137,239.38		-	-	
01/01/11	215,000	137,239.38	352,239.38	110,000	114,362.59	224,362.59	713,841.34
07/01/11		133,208.13	133,208.13		86,496.88	86,496.88	
01/01/12	220,000	133,208.13	353,208.13	115,000	86,496.88	201,496.88	774,410.00
07/01/12		129,083.13	129,083.13		85,346.88	85,346.88	
01/01/13	230,000	129,083.13	359,083.13	115,000	85,346.88	200,346.88	773,860.00
07/01/13		124,483.13	124,483.13		84,196.88	84,196.88	
01/01/14	240,000	124,483.13	364,483.13	115,000	84,196.88	199,196.88	772,360.00
07/01/14		119,683.13	119,683.13		82,759.38	82,759.38	
01/01/15	245,000	119,683.13	364,683.13	120,000	82,759.38	202,759.38	769,885.00
07/01/15		114,783.13	114,783.13		80,959.38	80,959.38	
01/01/16	260,000	114,783.13	374,783.13	125,000	80,959.38	205,959.38	776,485.00
07/01/16		109,583.13	109,583.13		78,459.38	78,459.38	
01/01/17	270,000	109,583.13	379,583.13	125,000	78,459.38	203,459.38	771,085.00
07/01/17		104,183.13	104,183.13		75,959.38	75,959.38	
01/01/18	280,000	104,183.13	384,183.13	130,000	75,959.38	205,959.38	770,285.00
07/01/18		98,583.13	98,583.13		73,359.38	73,359.38	
01/01/19	295,000	98,583.13	393,583.13	135,000	73,359.38	208,359.38	773,885.00
07/01/19		92,683.13	92,683.13		70,659.38	70,659.38	
01/01/20	305,000	92,683.13	397,683.13	140,000	70,659.38	210,659.38	771,685.00
07/01/20		86,392.50	86,392.50		67,859.38	67,859.38	
01/01/21	320,000	86,392.50	406,392.50	145,000	67,859.38	212,859.38	773,503.75
07/01/21		79,672.50	79,672.50		64,959.38	64,959.38	
01/01/22	335,000	79,672.50	414,672.50	150,000	64,959.38	214,959.38	774,263.75
07/01/22		72,553.75	72,553.75		61,959.38	61,959.38	
01/01/23	350,000	72,553.75	422,553.75	155,000	61,959.38	216,959.38	774,026.25
07/01/23		65,028.75	65,028.75		58,859.38	58,859.38	
01/01/24	365,000	65,028.75	430,028.75	165,000	58,859.38	223,859.38	777,776.25
07/01/24		57,090.00	57,090.00		55,456.25	55,456.25	
01/01/25	385,000	57,090.00	442,090.00	170,000	55,456.25	225,456.25	780,092.50
07/01/25		48,620.00	48,620.00		51,843.75	51,843.75	
01/01/26	400,000	48,620.00	448,620.00	175,000	51,843.75	226,843.75	775,927.50
07/01/26		39,820.00	39,820.00		48,015.63	48,015.63	
01/01/27	420,000	39,820.00	459,820.00	185,000	48,015.63	233,015.63	780,671.25
07/01/27		30,580.00	30,580.00		43,968.75	43,968.75	
01/01/28	440,000	30,580.00	470,580.00	195,000	43,968.75	238,968.75	784,097.50
07/01/28		20,900.00	20,900.00		39,581.25	39,581.25	
01/01/29	465,000	20,900.00	485,900.00	200,000	39,581.25	239,581.25	785,962.50
07/01/29		10,670.00	10,670.00		35,081.25	35,081.25	
01/01/30	485,000	10,670.00	495,670.00	210,000	35,081.25	245,081.25	786,502.50
07/01/30		-	-		30,225.00	30,225.00	
01/01/31	-	-	-	220,000	30,225.00	250,225.00	280,450.00
07/01/31		-	-		25,000.00	25,000.00	
01/01/32	-	-	-	230,000	25,000.00	255,000.00	280,000.00
07/01/32		-	-		19,250.00	19,250.00	
01/01/33	-	-	-	245,000	19,250.00	264,250.00	283,500.00
07/01/33		-	-		13,125.00	13,125.00	
01/01/34	-	-	-	255,000	13,125.00	268,125.00	281,250.00
07/01/34		-	-		6,750.00	6,750.00	
01/01/35	-	-	-	270,000	6,750.00	276,750.00	283,500.00

SECURITY FOR THE CERTIFICATES

Each Certificate evidences and represents a direct, undivided, fractional interest in installment payments to be made by the District under an Installment Sale Agreement dated as of May 1, 2010 (the "Installment Sale Agreement") between the District and the Public Property Financing Corporation of California (the "Corporation"), a nonprofit public benefit corporation under California law. The Corporation will assign to the Trustee substantially all of the its rights under the Installment Sale Agreement, including the right to receive Installment Payments from the District and the right to exercise any remedies in the event of a default by the District.

The payment of the installment payments is secured by a first and prior lien upon net revenues of the District water system. The District covenants that all net revenues shall constitute a trust fund for the security and payment of the installment payments. In addition, the installment payments are secured by a pledge of and lien upon the moneys on deposit in the funds and accounts established under a trust agreement dated as of May 1, 2010 among the District, the Corporation, and the Trustee.

The obligation of the District to make the installment payments from net revenues is absolute and unconditional. The District will not discontinue or suspend any such installment payments whether or not the project is operable or for any cause whatsoever.

Rate Covenant

The District covenants in the Installment Sale Agreement to fix, prescribe, revise and collect rates, fees, and charges for the services and facilities furnished by the District water system in each fiscal year which are at least sufficient, after making allowances for contingencies and error in the estimates, to yield gross revenues sufficient to:

- pay the operating and maintenance costs, installment payments on the Certificates, principal and interest on any parity debt and other District obligations payable from the gross revenues,
- pay any amounts required to restore the balance of the reserve fund to the full amount of the reserve requirement,
- generate net revenues at least equal to 125 percent of annual installment payments and payments on parity debt, provided that for purposes of computing this coverage test, net revenues may include the revenues received from transfers from a rate stabilization fund.

Reserve Fund

The Trust Agreement establishes a reserve fund as a reserve for the payment of the installment payments. The reserve fund will be initially funded from proceeds of the Certificates, and will be held by the Trustee and maintained in the amount of the reserve requirement. The reserve requirement is the maximum annual installment payments in any fiscal year. If the balance in the reserve fund exceeds the reserve requirement, the Trustee will transfer the excess to the installment payment fund at least semiannually, prior to each installment payment date.

Issuance of Parity Debt

In order to issue parity debt, the District must satisfy the conditions set forth in the Installment Sale Agreement, which include the following:

- No event of default has occurred and is continuing.
- Net revenues, including net revenues derived from facilities reserve charges, for the most recent completed fiscal year for which audited financial statements have been prepared, or for any other more recent 12-month period, must be at least equal to 125 percent of maximum annual installment payments on the Certificates and payments on parity debt. For purposes of computing net revenues, transfers from a rate stabilization fund may not be included in the computation.
- Additional revenues from adopted rate increases or system additions may be added to net revenues for this purpose.
- The Trustee for such parity debt will be the same entity performing the functions of the Trustee under the Trust Agreement.

The District may not issue or incur any obligations which are superior to the Certificates, but may issue or incur obligations which are either unsecured or subordinate to the Certificates or obligations to prepay or refund the Certificates.

Rate Stabilization Fund

The Installment Sale Agreement allows the District to establish a rate stabilization fund and deposit amounts in that fund from any source of legally available funds. Amounts transferred from the fund constitute gross revenues for the fiscal year in which they are transferred. Interest earned on the fund can be withdrawn by the District at its discretion annually and accounted for as gross revenues. The District has the right at any time to withdraw any or all amounts in the fund for any lawful purpose of the District. Amounts on deposit in the rate stabilization fund are not pledged to pay the installment payments or any parity debt.

The District established a $1,000,000 rate stabilization fund in conjunction with issuance of the 2005 Certificates. The District currently maintains $1,000,000 in its rate stabilization fund.

THE PROJECT

The Certificates will be used to finance portions of the District's Stonecreek Well, Pump Station and Pipeline project which will add to the District's groundwater supply to supplement the District's surface water supply, and the District's Reservoir Number 3 Project which has added 5 million gallons to the District's surface water storage capacity. The District currently receives approximately 85% of its supply from surface water via the Contra Costa Water District and 15% from the Glen Park Well commissioned in 2006. The Stonecreek well supply will increase the District's groundwater supply from 15% to approximately 25%. Construction of the District's 5 million gallon Reservoir Number 3 has increased the District's storage capacity from

7.5 million gallons to 12.5 million gallons. The groundwater supply will improve system reliability by providing additional water supply in the event of an emergency treatment plant outage and/or drought reductions of surface supplies.

The Project is comprised of the following facilities:

- A well site at the future Stonecreek subdivision park consisting of 1) a water supply well of up to 2 million gallons per day (mgd) production capacity, and 2) a well pump station with submersible pump, valves, piping, chlorine storage and feed system, building and associated electrical systems and controls.
- An 18-inch well water supply pipeline from the Stonecreek site to the existing Glen Park well site. The pipeline length is approximately 2,000 feet long.
- Reservoir Number 3, a 5 million gallon water storage reservoir that has been constructed next to the existing 5 million gallon Reservoir Number 2. The District's reservoir site has sufficient area to accommodate a third 5 million gallon reservoir to be built some time in the future as system demands require.

The following table shows a breakdown of estimated Project costs. Sources of funding for the Project include proceeds of the Certificates and an approved $500,000 grant. The District is a participant in a 2007 State of California, Proposition 50 Integrated Regional Water Management Implementation Grant award and has been approved by the State of California to receive $500,000 of grant proceeds to help fund the Stonecreek Well and Pipeline projects. A portion of the Certificates will be used to reimburse the District for prior capital expenditures pursuant to a reimbursement resolution.

Project Component	Cost Estimate	Status
Reservoir Number 3*	$1,600,000	Construction Completed
Stonecreek Well, Pump Station & Pipeline		
Well	200,000	Construction Completed
Pipeline	700,000	Contract Awarded
Pump Station	800,000	Contract Awarded
Contingency	300,000	Estimated
Design and Construction Support	700,000	Estimated
Subtotal	2,700,000	
Total Funding Requirement	4,300,000	
Less Grant Funding	(500,000)	
Funding Requirement from Certificates	3,800,000	

* Approximately $1,600,000 of funds previously expended on the project are eligible for reimbursement pursuant to the District's Reimbursement Resolution 2008-12.

THE DISTRICT

General

The District was created in 1953 under the County Water District Law of the State of California. The District provides water service to a population of approximately 34,000 in and around the City of Oakley, California. The District is located in the northeastern corner of Contra Costa County, about 50 miles northeast of San Francisco and 50 miles south of Sacramento. The District was originally named the Oakley Water District and was renamed the Diablo Water District in 1993. The District has 14 full-time employees.

Governance and Management

The District is governed by a five-member Board of Directors whose members are elected to four-year overlapping terms. The current board members are:

Board Member	Title	Term Expires
Howard Hobbs	*President*	December 2010
Richard R. Head	*Vice President*	December 2012
Kenneth J. Crockett	*Director*	December 2010
Enrico Cinquini	*Director*	December 2010
Edward Garcia	*Director*	December 2012

Four of the District's current board members have served on the board for multiple terms.

Mike Yeraka, P.E., has served as General Manager of the District since 1992. Mr. Yeraka is responsible for the day-to-day operation of the Diablo Water District including the planning, organizing, and supervising the development of the District's CIP projects and professional engineering work related to the District's water distribution, pumping and storage system. He has more than 25 years of progressively responsible professional experience as a Civil Engineer specializing in the design and management of construction of major infrastructure and water treatment plants. Mr. Yeraka is a California Professional Registered Civil Engineer and holds a B.S. Degree in Civil Engineering from the University of California, Berkeley. He is a member of the American Water Works Association.

Service Area

The District's service area includes 11,600 acres in and around the City of Oakley. An additional 4,400 adjacent acres lie within the District's sphere of influence and are planned to be served by the District when developed. The District's sphere of influence includes the City of Oakley, the small community of Knightsen, portions of the Cities of Antioch and Brentwood, and a portion of Bethel Island, as well as several thousand acres of reclaimed land surrounded by levees including Hotchkiss Tract, and Veale Tract. Approximately 2,400 acres of the District's sphere of influence is submerged under the waters of the San Joaquin River Delta.

Over the past few decades, the District's service area has transitioned from a largely rural and agricultural area to a suburban community with development of a number of large subdivisions and infill. The City of Oakley incorporated in 1999, partly to better manage local growth. While the District has experienced a slowdown in new development compared to higher levels experienced in the early to mid-2000s, the District anticipates that development will gradually increase in upcoming years due to continued commercial and residential development. The number of new annual connections to the District's water system over the past 20 years has averaged approximately 280 per year, with a median of a little over 200 connections per year.

Source of Supply & the Water System

The District currently has two sources of supply including a) surface water treated at the Randall-Bold Water Treatment Plant (RBWTP), and b) groundwater produced from a well. The Certificates are being used to help finance a second groundwater well that will increase the District's groundwater supply capacity and reduce reliance on surface water.

The District's primary source of water has historically been surface water purchased from the Contra Costa Water District (CCWD). CCWD provides direct water service to a population of approximately 265,000 and also provides wholesale water to six regional water agencies that serve a combined population of roughly 285,000. CCWD draws its water from the Sacramento-San Joaquin Delta under a contract with the U.S. Bureau of Reclamation's Central Valley Project (CVP). CCWD's contract for CVP water was renewed in 2005 for a period of 40 years lasting through February 2045. In 2009, CCWD's water allocation from the CVP was reduced by 35% due to drought conditions. In response, CCWD implemented a successful region-wide conservation program and also used water stored in CCWD's Los Vaqueros Reservoir and water purchased from the State Water Bank to supplement its temporarily-reduced CVP allocation.

Wholesale water purchased by the District from CCWD is treated at the RBWTP, a water treatment plant jointly owned by the District and CCWD pursuant to a Joint Exercise of Powers Agreement dated June 6, 1989 and amended November 3, 2004. Pursuant to the agreement, the District and CCWD together form the Contra Costa Water Authority (the "Authority"), established for the purpose of providing for the financing, construction, maintenance and operation of capital improvements including the RBWTP. Under the agreement, CCWD is responsible for administering, operating and maintaining the RBWTP and the District is contractually obligated to pay for its share of: a) raw water supplied to the District based on CCWD's rate for raw water for municipal users, b) fixed operating and maintenance costs of the RWBTP based on the District's share of capacity owned in the RBWTP (currently 37.5%), and c) variable operating and maintenance costs of the RBWTP based on the percentage of water supplied to each agency during each fiscal year.

Under the agreement, the CCWD is solely responsible for authorization and payment of any indebtedness of the Authority. To help finance construction of the RBWTP, the Authority issued debt which was refinanced by the Authority in 2002. The District is obligated to pay CCWD for a 35.5% share of Authority debt service on the 2002 issue, however the District's net revenues are not pledged to payment of Authority debt.

The RBWTP began operating in 1992 and has a capacity of 40 million gallons per day (mgd) which is allocated 25 mgd (62.5%) to CCWD and 15 mgd (37.5%) to the District. Currently, filter back-washing and in-plant water use account for roughly 5% of the RBWTP's capacity resulting in a net District supply capacity out of the plant of 14.3 mgd. The RBWTP was designed to accommodate expansion to 80 mgd. Under the agreement with CCWD, the District has rights to double its share of capacity in the RBWTP to 30 mgd.

The District's existing groundwater supply well began operating in 2006 and was constructed to provide an alternate source of water supply in order to improve reliability and reduce reliance on wholesale water treated at the RBWTP. The District's well has a maximum capacity of up to 2.0 mgd and currently provides approximately 15% of the District's water supply. Operation of the well resulted in a reduction in the District's wholesale water purchases and an associated reduction in water treatment costs.

The following table shows a history of District water supply sources.

Diablo Water District
Source of Supply (Million Gallons)

	2004	2005	2006	2007	2008
Groundwater/Well	0.0	0.0	72.1	306.9	302.0
Surface Water/RBWTP	1,715.3	1,761.1	1,682.5	1,636.0	1,691.5
Total (million gallons)	1,715.3	1,761.1	1,754.6	1,942.9	1,993.5
Total (mgd)	*4.7*	*4.8*	*4.8*	*5.3*	*5.5*

The Certificates are being used to help fund a second District well with up to 2.0 mgd of capacity, which will give the District a total well production capacity of up to 4.0 mgd, roughly 75% of the District's average daily water demand. However, the District does not anticipate using its wells at maximum capacity under normal operating conditions and expects to use groundwater to provide roughly 25% of its current supply needs in a typical year. The District anticipates that its costs for water supply and treatment will decrease when the new well goes into service.

With the new well, the District's water supply capacity from the RBWTP and the two wells will total approximately 18.3 mgd. By comparison, the District's annual water sales total about 5.5 mgd with maximum day demand of approximately 11.0 mgd.

The District currently has three reservoirs with a combined storage capacity of 12.5 million gallons, roughly 227% of average day demand and 114% of maximum day demand. The site on which two of the District's 5 million gallon reservoirs are located has space to accommodate an additional 5 million gallon reservoir.

Water is distributed to District customers via approximately 157 miles of distribution pipelines. Overall, the District's pipelines are in very good condition. The District's replaced most of its older pipelines in prior years on a pay-as-you-go basis.

District Customers & Water Demand

The District provides water service to about 10,500 connections, representing a population of approximately 34,000 plus local businesses, schools, and other non-residential accounts. Residential customers account for about 97 percent of the total number of accounts. The District's customer base has grown substantially over the past decade although growth has slowed in recent years. The following table shows a history of the number of water customers for the past five years.

Diablo Water District
Water Customers

	2005	2006	2007	2008	2009
Single family residential	8,349	9,663	9,646	9,677	10,169
Multi-family residential	12	12	12	12	15
Commercial / institutional	108	115	116	116	132
Industrial	1	1	1	2	2
Landscape irrigation	87	92	103	108	125
Total	8,557	9,883	9,878	9,915	10,443
Annual Change %		15.5%	-0.1%	0.4%	5.3%

The following table lists the District's 10 largest customers in calendar year 2009. These customers accounted for approximately 3.7% of total annual water sales by volume and approximately 3.4% of annual water rate revenues.

Diablo Water District
Top 10 Water Customers, 2009

Customer	Description	2009 Water Use (1000 gallons)	Water Rate Revenues
City of Oakley	Irrigation: Simoni Ranch Rd	8,167	$37,747
Orchard Park School	School	7,292	33,557
Brackenhoff Mgmnt Group	Apartments	6,982	28,369
Eagle City	Residential / Mobil Home Park	7,612	26,263
City of Oakley	Irrigation: Lavender Way /Celsia Way	4,610	19,064
City of Oakley	Irrigation: Oxford Dr	5,759	17,486
Infinity Mgmnt Inc	Irrigation: Empire Ave	4,899	17,220
City of Oakley	Irrigation: Civic Center	4,477	16,759
Brackenhoff Mgmnt Group	Apartments	4,134	16,655
City of Oakley	Irrigation: Brown Rd/Lavender Way	4,055	15,241
Subtotal		57,986	228,361
Approximate % of District Total		3.7%	3.4%

DISTRICT FINANCES

The Diablo Water District is accounted for as a single proprietary enterprise, with a separate general fund, facilities reserve (capital) fund, and infrastructure fund. The intent of the District Board is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, while expansion-related capital expenses be recovered through connection fees levied on new development. The District uses the accrual basis of accounting, in which revenues are recognized when earned and expenses are recognized as they are incurred.

Financial Statements

The table on the following page presents the District's statement of historical revenues and expenses for fiscal years ended June 30, 2006 through 2009. Griffin & Poka, Inc. served as the District's independent auditor for fiscal years ended June 30, 2006, 2008, and 2009. Maze & Associates served as the District's independent auditor for fiscal year ended June 30, 2007.

The table on the subsequent page shows a statement of historical assets and liabilities based on the District's audited financial statements.

Diablo Water District
Statement of Revenues & Expenses

	Audited Results for Year Ended June 30			
	2006	2007	2008	2009
Operating Revenues				
Water sales & service charges	$6,509,645	$7,264,832	$7,513,903	$6,655,606
Operating Expenses				
Water purchases	2,503,785	2,635,953	2,658,923	2,624,629
Water treatment	1,174,598	1,237,739	1,312,537	1,438,464
Maintenance	179,809	185,824	238,134	234,025
Transmission, distribution, and pumping	1,083,194	705,608	1,232,068	813,351
Customer accounts	673,826	754,634	805,631	885,665
Administration and general	707,929	788,686	793,121	966,235
Depreciation	971,876	979,403	1,005,638	827,315
Total operating expenses	7,295,017	7,287,847	8,046,052	7,789,684
Net operating income (loss)	(785,372)	(23,015)	(532,149)	(1,134,078)
Non-Operating Revenues				
Interest	362,615	912,997	903,978	316,480
Administration and inspection reimbursement	175,116	-	40,580	13,963
Brentwood overlap fees	682,680	200,236	47,587	30,145
Rental income	43,311	44,622	47,566	53,518
Facilities reserve charges	-	2,266,833	-	-
Other/miscellaneous[1]	265,873	170,742	337,487	564,228
Total non-operating revenues	1,529,595	3,595,430	1,377,198	978,334
Non-Operating Expenses				
Interest on 2005 Certificates	253,153	-	-	260,138
Interest payment to CCWD	583,960	-	648,806	563,029
Amortization	102,355	105,041	464,832	-
Interest Expense	-	765,971	-	-
Facility reserve expenses	-	2,086,564	-	-
Other non-operating expenses[3]	42,545	25,803	-	-
Total non-operating expenses	982,013	2,983,379	1,113,638	823,167
Net non-operating income (loss)	547,582	612,051	263,560	155,167
Net Income (Loss)	(237,790)	589,036	(268,589)	(978,911)
Other Changes in Net Assets				
Facilities reserve charges	6,348,354	included above	463,965	211,948
Interest & dividend on facilities reserve	266,083	-	338,943	-
Prior and current year reimbursement of capital expenses for facility reserve	-	-	2,619,830	-
Prior year adjustments	-	-	-	(1,488,951)
Other	9,791	-	-	(211,948)
Total other income	6,624,228	-	3,422,738	(1,488,951)
Net Assets, Beginning of Year	22,374,425	28,760,863	29,349,899	32,504,048
Net Assets, End of Year	28,760,863	29,349,899	32,504,048	30,036,186

Source: Prepared by Bartle Wells Associates from audited financial statements of the District.
1 Includes labor, overhead & vehicle reimbursements, and other miscellaneous income.
rental income; and other miscellaneous revenues; excludes facilities reserve charges.
2 Includes interest on expenses, loss on sale of investments, and amortization.

Diablo Water District
Assets & Liabilities

	Audited Results for Year Ended June 30			
	2006	2007	2008	2009
ASSETS				
Current Assets				
Cash and cash equivalents	$14,527,456	$172,562	$14,666,154	$13,267,367
Investments & other current assets	6,772,789	21,610,402	4,667,751	1,943,921
Total current assets	21,300,245	21,782,964	19,333,905	15,211,288
Fixed Assets				
Land	2,733,489	2,733,489	2,733,489	2,733,489
Water treatment plant	21,909,857	21,855,068	22,628,492	23,086,925
Transmission and distribution	4,621,702	4,621,702	4,712,522	4,712,522
General plant	1,564,810	1,593,305	1,891,512	1,916,197
Infrastructure	4,525,816	4,525,816	4,525,816	14,630,247
Office Equipment	-	-	315,202	315,202
Construction in progress	5,776,502	6,358,707	7,883,853	358,183
Less accumulated depreciation	(12,640,367)	(13,507,339)	(12,571,191)	(15,215,137)
Total fixed assets	28,491,809	28,180,748	32,119,695	32,537,628
Other Assets	2,117,686	2,012,645	1,917,958	1,812,021
Total Assets	**51,909,740**	**51,976,357**	**53,371,558**	**49,560,937**
LIABILITIES				
Current liabilities	3,918,732	3,589,607	3,537,565	3,202,105
Long-term liabilities	19,230,145	19,036,851	17,329,945	16,322,645
Total liabilities	**23,148,877**	**22,626,458**	**20,867,510**	**19,524,750**
FUND EQUITY				
Retained earnings	25,637,873	22,594,058	25,723,238	25,186,058
Appropriated equity (facilities reserve)	3,122,990	6,755,841	6,780,810	4,850,128
Total Net Assets	**28,760,863**	**29,349,899**	**32,504,048**	**30,036,186**

Source: Prepared by Bartle Wells Associates from audited financial statements of the District.

Fund Reserves & Minimum Targets

As of June 30, 2009, the District maintained over $13 million in fund reserves available for District operating or capital needs. Each year, the District establishes minimum fund reserve targets as part of the budget process.

The District's current fund reserve minimum targets include:

- General Fund: $600,000 for cash shortfalls that may occur during the year
  $650,000 for emergency purposes
  $1,000,000 Rate Stabilization Fund
  $2,250,000 subtotal
- Facilities Reserve: $1,800,000 for cash shortfalls due to reduced development (based on 140 new connections per year)
- Infrastructure Replacement: $1,400,000 approximately 5% of the replacement cost of large depreciated assets
- Total Minimum Target: $5,450,000 minimum fund reserve target (per budget)

Water Rates

The District's water rates consist of two components including a fixed monthly service charge based on meter size, and a quantity charge based on metered water use. The District reviews its finances and rates at least annually. The District establishes water rates by ordinance and has the sole authority to establish charges for water service without the approval of any other governmental agency. The District recently increased water rates by 2% effective February 1, 2010.

The following tables show the District's standard water rates and a comparison of monthly regional water bills assuming a typical residential connection using 480 gallons per day (gpd), or approximately 19.5 hundred cubic feet (hcf) of water per month. This level of usage represents the average of winter and summer use of the District's residential customers.

Diablo Water District Water Rates

Monthly Service Charge	
5/8" x 3/4" meter	$9.13
1" meter	22.54
1 1/2" meter	45.00
2" meter	72.00
3" meter	159.00
4" meter	272.00
6" meter	487.00
8" meter	834.00
10" meter	1,320.00
12" meter	1,736.00
14" meter	2,500.00
16" meter	3,471.00
Quantity Charge (per 100 cubic feet)	$2.53

Comparison of Regional Water Bills

Agency	Monthly Rate*
Golden State Water Co. (Bay Point)	$91.53
City of Martinez	84.34
City of Pittsburg	78.48
Contra Costa Water District (Concord)	73.12
City of Brentwood	59.76
Diablo Water District	**58.52**
City of Antioch	41.77

* Assumes basic residential meter size (5/8" or 3/4") & 480 gpd, or approximately 19.5 hcf of monthly use.

In addition to the standard water rates, the District levies additional service charges on a limited number of customers within certain areas. The District also offers a 25% discount on the monthly service charge to low-income senior and disabled customers.

Connection Fees

The District collects connection fees from new customers connecting to the water system. The District terms these fees Facilities Reserve Charges. The charges vary by three regions within the District's service area. The charge for a typical new single family dwelling unit with a 5/8-inch water meter ranges from $6,607 to $13,456. New connections with larger meter sizes pay higher fees based on the ratio of their meter capacity to the capacity of a 5/8-inch residential meter. Facilities Reserve Charges are used exclusively for funding capital improvements and related debt repayment.

The District also requires developers to pay the cost of any main line extensions subject to reimbursement from future development. In addition to the Facilities Reserve Charge, new District connections also pay a Main Extension Reimbursement Assessment. The current assessment is $488 per new 5/8-inch meter connection and higher for larger meters. The District uses funds recovered by these assessments to reimburse eligible developers who initially funded the main line extensions for a period of 10-years without interest. The District also requires developers to fund the cost of relocating pipelines in substandard streets.

Billing and Collection

The District bills each account for water service on a monthly basis. Water bills are considered delinquent if unpaid 30 days after the date of the bill. About two weeks after the delinquent date, the District levies a late charge equal to 5 percent of the delinquent amount. If a bill remains unpaid for about two weeks after it becomes delinquent, the District issues a final notice to customers with delinquent balances of $75 or more. If the bill remains unpaid after the final notice is sent, the District makes a courtesy phone call to inform the customer of the District's intent to disconnect the service. If a bill remains unpaid for more than 24 hours after the courtesy phone call, it is the District's practice to disconnect a customer's water service. Delinquent bills from closed accounts are sent to a collection agency.

To help minimize the potential for billing delinquencies, the District requires new customers to pay a security deposit equal to the minimum of $100 or two times the customer's estimated monthly bill. The requirement to pay the security deposit may be waived for customers who request a waiver and have satisfactory credit history based on the District's review of their credit report. The District applies the security deposit if an account is delinquent for more than 30 days.

The following table shows a 5-year history of customer payment delinquencies. Delinquencies have risen in recent years partly due to an increase in foreclosures. Roughly one-third of delinquencies in 2008/09 were due to three developers and one contractor that went out of business. The numbers for 2009/10 reflect the first 9 months of data for the current fiscal year and include an estimate that the amount of uncollectible billings will account for about 0.53% of total annual billings.

Diablo Water District
Uncollectible Accounts

	2005/06	2006/07	2007/08	2008/09	2009/10*
Number of Delinquent Accounts	167	185	251	381	267
Uncollectible Billings	$16,233	$16,500	$30,866	$47,263	$26,652
% of Total Billings	0.25%	0.23%	0.41%	0.71%	0.53%

* Includes only nine months of data from July 1, 2009 through April 1, 2010.

Outstanding Debt

The District has one outstanding obligation secured by the net revenues of the water system. On March 8, 2005, the District issued $7,500,000 of Water Revenue Certificates of Participation, Series 2005 (the "2005 Certificates"). The 2005 Certificates mature on January 1 of each year through final maturity on January 1, 2030. Currently, $6,525,000 of principal remains outstanding. The 2005 Certificates were structured with approximately level annual debt service payments. Average annual debt service on outstanding maturities is approximately $494,000 per fiscal year. The principal and interest payments for 2005 Certificates are insured by Syncora Guarantee Inc. (formerly XL Capital Assurance Inc.) The trustee for the 2005 Certificates maintains a cash-funded debt service reserve fund equal to maximum annual debt service on the 2005 Certificates. Such reserve fund secures only the 2005 Certificates, and is not available for payment of principal and interest represented by the Certificates.

The District also has a subordinate obligation to pay a 35.5% share of debt service for the Contra Costa Water Authority's Water Treatment Revenue Refunding Bonds, 2002 Series A, which were issued to refinance debt originally used to help fund construction of the RBWTP. Debt repayment for this issue is secured by the net revenues of CCWD. The District's net revenues are not pledged to repay this debt obligation. The District's share of payments for this obligation equal approximately $1,285,000 per year through final maturity on October 1, 2020.

Historical Debt Service Coverage

The following table shows a 4-year history of coverage on debt secured by the District's net revenues. In the last two fiscal years, revenues from Facilities Reserve Charges have decreased from historically high levels due to a slowdown in new development. Water sales revenues decreased in 2008/09 due to a decrease in the volume of water sales, which is partly attributed to the success of local and regional conservation initiatives.

Diablo Water District
Historical Net Revenues & Debt Service Coverage

	2005/06	2006/07	2007/08	2008/09
Revenues				
Water Service Charges & Sales	$6,509,645	$7,264,832	$7,513,903	$6,655,606
Facilities Reserve Charges	6,348,354	2,266,833	463,965	211,948
Interest Earnings	362,615	912,997	903,978	316,480
Other Revenues[1]	1,166,980	415,600	473,220	661,854
Total Revenues	14,387,594	10,860,262	9,355,066	7,845,888
Operating & Maintenance Expenses				
Water Purchases	2,503,785	2,635,953	2,658,923	2,624,629
Water Treatment	1,174,598	1,237,739	1,312,537	1,438,464
Maintenance	179,809	185,824	238,134	234,025
Transmission, Distribution & Pumping	1,083,194	705,608	1,232,068	813,351
Customer Accounts	673,826	754,634	805,631	885,665
Administration & General	707,929	788,686	793,121	966,235
Total Operating & Maintenance Expenses	6,323,141	6,308,444	7,040,414	6,962,369
Net Revenues	8,064,453	4,551,818	2,314,652	883,519
District Debt Service				
2005 Installment Payments[2]	438,153	494,104	491,979	489,666
Debt Service Coverage	18.41	9.21	4.70	1.80
Net Revenues Remaining After Payment of Debt Service	7,626,300	4,057,714	1,822,673	393,853

Source: Prepared by Bartle Wells Associates based on audited financial statements of the District.
1 Includes admin & inspection fees; Brentwood overlap fees; labor, overhead & vehicle reimbursements, rental income; and other miscellaneous revenues.
2 Based on 2005 Installment Payment schedule.

Projected Revenues, Expenses, & Debt Service Coverage

The following table shows a projection of District revenues, expenses, debt service, and debt service coverage. Key assumptions are listed at the top of the table. The District anticipates slowly and gradually raising water rates in upcoming years and recently adopted a 2% rate increase effective February 1, 2010. The projections assume that wholesale water purchases and associated RBWTP water treatment costs will decline by a combined amount of $300,000 starting 2011/12 due to operation of the new groundwater supply well financed by the Certificates. The debt service coverage ratio is calculated by dividing the annual net revenues by the total annual debt service secured by the District's net revenues. Net revenues are defined as total annual revenues less operating and maintenance expenses. While the District believes the table reasonably and accurately reflects its future finances, no guarantee can be given that the results shown will be achieved.

Diablo Water District
Projected Revenues, Expenses, and Debt Service Coverage

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
ASSUMPTIONS		Projected	Projected	Projected	Projected	Projected
Rate Increases	2%	2%	2%	2%	2%	2%
Effective Date of Rate Increases	Feb-1	Feb-1	Feb-1	Feb-1	Feb-1	Feb-1
New Monthly Service Charge (5/8" Meter)	$9.13	$9.31	$9.50	$9.69	$9.88	$10.08
New Water Rate per hcf	$2.53	$2.58	$2.63	$2.68	$2.73	$2.78
Number of 5/8" Meters or Equivalents	11,000	11,050	11,125	11,225	11,375	11,525
Growth (5/8" Meters or Equivalents)	50	75	100	150	150	150
Water Sales (hcf)	2,208,000	2,265,000	2,329,000	2,379,000	2,411,000	2,443,000
Facilities Reserve Charge (Average)	$11,000	$11,000	$11,000	$11,000	$11,000	$11,000
Interest Rate Earned on Investments	0.75%	1.0%	1.5%	2.0%	2.0%	2.0%
Wholesale Water Rate Adjustments	-	3.0%	3.0%	3.0%	3.0%	3.0%
Operating Cost Escalation	-	3.0%	3.0%	3.0%	3.0%	3.0%
Revenues						
Water Service Charges	$1,194,000	$1,226,000	$1,262,000	$1,304,000	$1,348,000	$1,393,000
Water Sales Charges	5,514,000	5,770,000	6,050,000	6,298,000	6,504,000	6,712,000
Facilities Reserve Charges	550,000	825,000	1,100,000	1,650,000	1,650,000	1,650,000
Interest Income	105,000	140,000	182,000	219,000	202,000	191,000
Other/Miscellaneous	450,000	450,000	450,000	450,000	450,000	450,000
Total Revenues	7,813,000	8,411,000	9,044,000	9,921,000	10,154,000	10,396,000
Operating & Maintenance Expenses						
Salaries & Benefits	1,767,000	1,820,000	1,875,000	1,931,000	1,989,000	2,049,000
Water Purchases	2,240,000	2,367,000	2,307,000	2,427,000	2,533,000	2,644,000
RBWTP Water Treatment	1,305,000	1,344,000	1,284,000	1,323,000	1,363,000	1,404,000
Maintenance & Utilities	465,000	479,000	493,000	508,000	523,000	539,000
General Operating/Office Expenses/Rent	415,000	427,000	440,000	453,000	467,000	481,000
Other/Miscellaneous	510,000	525,000	541,000	557,000	574,000	591,000
Total Operating & Maintenance Expenses	6,702,000	6,962,000	6,940,000	7,199,000	7,449,000	7,708,000
Net Revenues	1,111,000	1,449,000	2,104,000	2,722,000	2,705,000	2,688,000
District Debt Service						
2005 Installment Payments	487,000	489,000	486,000	488,000	489,000	484,000
2010 Installment Payments	0	224,000	288,000	286,000	283,000	286,000
Total Debt Service	487,000	713,000	774,000	774,000	772,000	770,000
Debt Service Coverage Ratio	**2.28**	**2.03**	**2.72**	**3.52**	**3.50**	**3.49**
Net Revenues Remaining After Payment of District Debt Service	624,000	736,000	1,330,000	1,948,000	1,933,000	1,918,000

Future Capital Expenditures

In addition to funding new projects with proceeds of the Certificates, the District anticipates spending roughly an additional $5 million on capital expenditures over the next 5 years on a pay-as-you-go basis. These expenditures include funding for some one-time repair and replacement projects. The District anticipates funding future repairs and replacements on a pay-as-you-go basis, and funding expansion-related capital improvements as growth occurs using revenues collected from Facilities Reserve Charges. The District does not anticipate issuing any additional debt in the foreseeable future.

The District's long-term capital needs for serving growth are identified in a Facilities Plan that was last updated in July 2006 by CDM (also known as Camp Dresser & McKee), the District's engineering consultants. The Facilities Plan identifies roughly $110 million of capital improvements needed to serve the District's service area through ultimate buildout. Buildout population is projected at 75,000, more than double the District's current population, and is projected to occur through 2040. Almost half of the costs identified in the Facilities Plan are for future expansions of the RBWTP to provide additional water treatment capacity to meet the future needs of growth. The District's Facilities Reserve Charges are sized to recover costs for capital improvement projects identified in the Facilities Plan.

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON APPROPRIATIONS AND CHARGES

Article XIIIA

On June 6, 1978, California voters approved Proposition 13, an initiative constitutional amendment which enacted Article XIIIA of the California Constitution. Article XIIIA substantially altered the taxation of real property in California. The article (as amended) limits ad valorem property taxes of all real property to 1 percent of the full cash value of the property except for any taxes above that level required to pay debt service on certain bonds approved by the voters. The article defines "full cash value" as the assessor's appraised value of real property as of March 1, 1975 subject to annual adjustment to reflect increases, not to exceed 2 percent per year, in the consumer price index or comparable local data. Article XIIIA permits establishment of a new "full cash value" for new construction or a change in ownership.

Article XIIIB

Article XIIIB of the California Constitution limits the annual appropriations of the state and of any city, county, school district, authority, or other political subdivision of the state to the level of appropriations of the particular governmental entity for the prior fiscal year, adjusted for changes in the cost of living and population. The "base year" for establishing such appropriations limit is 1978/79 and the limit is to be adjusted annually to reflect changes in population and consumer prices. Adjustments in the appropriations limit of any 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 XIIIB generally include the proceeds of taxes levied by the state or other entity of local government, exclusive of certain state subventions or 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 XIIIB includes a requirement that if an entity's revenues in any year exceed the amounts permitted to be spent, the excess must be returned by revising tax rates or fee schedules over the two subsequent years.

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

The District believes that its water charges do not exceed the costs it reasonably bears in providing such services and therefore are not subject to the limits of Article XIIIB. The District covenants in the installment sale agreement that it will prescribe rates and charges sufficient to provide for the payment of the installment payments each year.

Proposition 218

General. On November 5, 1996, California voters approved Proposition 218, the so-called "Right to Vote on Taxes Act." Proposition 218 added Articles XIIIC and XIIID to the State Constitution, which affect the ability of local governments to levy and collect both existing and future taxes, assessments, and property-related fees and charges. Proposition 218, which generally became effective on November 6, 1996, changed, among other things, the procedure for the imposition of any new or increased property-related "fee" or "charge," which is defined as "any levy other than an ad valorem tax, a special tax or an assessment, imposed by a (local government) upon a parcel or upon a person as an incident of property ownership, including user fees or charges for a property related service" (and referred to in this section as a "property-related fee or charge").

Specifically, under Article XIIID, before a municipality may impose or increase any property-related fee or charge, the entity must give written notice to the record owner of each parcel of land affected by that fee or charge. The municipality must then hold a hearing upon the proposed imposition or increase at least 45 days after the written notice is mailed, and, if a majority of the property owners of the identified parcels present written protests against the proposal, the municipality may not impose or increase the property-related fee or charge.

Further, under Article XIIID, revenues derived from a property-related fee or charge may not exceed the funds required to provide the "property-related service" and the entity may not use such fee or charge for any purpose other than that for which it imposed the fee or charge. The amount of a property-related fee or charge may not exceed the proportional cost of the service attributable to the parcel, and no property-related fee or charge may be imposed for a service unless that service is actually used by, or is immediately available to, the owner of the property in question.

In addition, Article XIIIC states that "the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge. The power of initiative to affect local taxes, assessments, fees and charges shall be applicable to all local governments and neither the Legislature nor any local government charter shall impose a signature requirement higher than that applicable to statewide statutory initiatives."

Judicial Interpretation of Proposition 218. After Proposition 218 was enacted in 1996, appellate court cases and an Attorney General opinion initially indicated that fees and charges levied for water and wastewater services would not be considered property-related fees and charges, and thus not subject to the requirements of Article XIIID regarding notice, hearing and protests in connection with any increase in the fees and charges being imposed. However, three recent cases have held that certain types of water and wastewater charges could be subject to the requirements of Proposition 218 under certain circumstances.

In Richmond v. Shasta Community Services District (9 Cal. Rptr. 3rd 121), the California Supreme Court addressed the applicability of the notice, hearing and protest provisions of Article XIIID to certain charges related to water service. In Richmond, the Court held that connection charges are not subject to Proposition 218. The Court also indicated in dictum that a fee for ongoing water service through an existing connection could, under certain circumstances, constitute a property-related fee and charge, with the result that a local government imposing such a fee and charge must comply with the notice, hearing and protest requirements of Article XIIID.

In Howard Jarvis Taxpayers Association v. City of Fresno (March 23, 2005), the California Court of Appeal, Fifth District, concluded that water, sewer and trash fees are property-related fees subject to Proposition 218 and a municipality must comply with Article XIIID before imposing or increasing such fees. The California Supreme Court denied the City of Fresno's petition for review of the Court of Appeal's decision on June 15, 2005.

In July 2006 the California Supreme Court, in Bighorn-Desert View Water Agency v. Verjil (S127535, July 24, 2006), addressed the validity of a local voter initiative measure that would have (a) reduced a water agency's rates for water consumption (and other water charges), and (b) required the water agency to obtain voter approval before increasing any existing water rate, fee, or charge, or imposing any new water rate, fee, or charge. The court adopted the position indicated by its statement in Richmond that a public water agency's charges for ongoing water delivery are "fees and charges" within the meaning of Article XIIID, and went on to hold that charges for ongoing water delivery are also "fees" within the meaning of Article XIIIC's mandate

that the initiative power of the electorate cannot be prohibited or limited in matters of reducing or repealing any local tax, assessment, fee or charge. Therefore, the court held, Article XIIIC authorizes local voters to adopt an initiative measure that would reduce or repeal a public agency's water rates and other water delivery charges. (However, the court ultimately ruled in favor of the water agency and held that the entire initiative measure was invalid on the grounds that the second part of the initiative measure, which would have subjected future water rate increases to prior voter approval, was not supported by Article XIIIC and was therefore invalid.)

The court in Bighorn specifically noted that it was not holding that the initiative power is free of all limitations; the court stated that it was not determining whether the electorate's initiative power is subject to the statutory provision requiring that water service charges be set at a level that will pay for operating expenses, provide for repairs and depreciation of works, provide a reasonable surplus for improvements, extensions, and enlargements, pay the interest on any bonded debt, and provide a sinking or other fund for the payment of the principal of such debt as it may become due.

Compliance by the District with Proposition 218. The District's current water rates were adopted on January 27, 2010 by Resolution Number 2010-1 in compliance with the Bighorn decision.

The District will continue to comply with the provisions of Proposition 218 and implementing legislation in connection with future rate increases, as such requirements may be interpreted by state courts.

Conclusion. It is not possible to predict how courts will further interpret Article XIIIC and Article XIIID in future judicial decisions, and what, if any, further implementing legislation will be enacted.

Under the Bighorn case, local voters could adopt an initiative measure that reduces or repeals the District's rates and charges, although it is not clear whether (and California courts have not decided whether) any such reduction or repeal by initiative would be enforceable in a situation in which such rates and charges are pledged to the repayment of bonds or other indebtedness.

There can be no assurance that the courts will not further interpret, or the voters will not amend, Article XIIIC and Article XIIID to limit the ability of local agencies to impose, levy, charge and collect increased fees and charges for utility service, or to call into question previously adopted utility rate increases.

RISK FACTORS

The following section describes certain special considerations and risk factors affecting the payment of and security for the Certificates. The following discussion is not meant to be an exhaustive list of the risks associated with the purchase of any Certificates and does not necessarily reflect the relative importance of the various risks. Potential investors are advised

to consider the following special factors along with all other information in the official statement in evaluating the Certificates. There can be no assurance that other considerations will not arise in the future.

General

The installment payments are payable solely from and secured solely by the net revenues pledge therefor under the installment sale agreement, together with amounts on deposit from time to time in certain funds and accounts held by the trustee under the trust agreement, including the reserve fund. If for any reason, the District does not collect sufficient net revenues to pay the installment payments, the District will not be obligated to use any of its other funds, other than amounts on deposit in the reserve fund and certain other amounts on deposit in the funds and accounts established under the trust agreement to pay debt service on the Certificates.

Initiatives

In recent years several initiative measures have been proposed or adopted which affect the ability of local governments to increase taxes and rates. There is no assurance that the electorate or the state legislature will not at some future time approve additional limitations which could affect the ability of the District to implement future rate increases which could reduce net revenues and adversely affect the security for the Certificates.

Rate Covenant

The District covenants to increase its water rates and charges in the event of deficiencies of net revenues. However, because of procedural requirements imposed by Proposition 218, the District Board may not be able to increase water rates by Board action alone. Rate increases for water services are subject to majority protest at a public hearing. See "Constitutional and Statutory Limitations on Appropriations and Charges" herein.

Demand and Usage

There can be no assurance that the local demand for water service will continue according to historical levels. Reduction in the amount of water sales would reduce revenues and could require an increase in rates or charges in order to produce net revenues sufficient to repay debt and comply with the District's rate covenants. Future rate increases could result in a reduction in water demand. In addition, drought conditions and voluntary or mandatory conservation measures could result in a decrease in water sales.

Revenues

There can be no assurance that the District's projected revenues will be consistent with the levels estimated in this Official Statement. Changes in the amount of water sales, development within the District' service area, interest earnings, and/or other revenue sources could reduce District revenues and could require increases in rates or charges in order to pay debt service and comply with the District's rate covenants. Reduced revenues would increase the likelihood of nonpayment.

Expenses

There can be no assurance that the District's operating and maintenance expenses and capital expenses, including those payment obligations arising as a result of the District's participation in a joint powers authority, will be consistent with the levels described in this Official Statement. Changes in technology, increases in the cost of energy or other expenses and increased regulatory requirements could reduce net revenues, and could require increases in rates or charges in order to pay debt service and comply with the District's rate covenants. Higher expenses would increase the likelihood of nonpayment.

Loss of Tax Exemption

As discussed under the heading "Tax Matters," the interest represented by the Certificates could become includable in gross income for purposes of federal income taxation retroactive to the date of delivery of the Certificates as a result of acts or omissions of the District in violation of its covenants in the trust agreement. Should such an event of taxability occur, the Certificates would not be subject to a special prepayment or acceleration and would remain outstanding until maturity or until prepaid under the prepayment provisions of the trust agreement.

Earthquakes and Other Natural Disasters

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

District Water System

The District's surface water system is subject to the EPA's Surface Water Treatment Rule and currently meets all current and anticipated requirements. The capital and operating funding requirements of the system could be increased if new regulations result in the need for additional facilities, equipment, and/or operating costs.

Limited Recourse on Default

If the District defaults on its obligation to make Installment Payments, the Trustee, as assignee of the Corporation, has the right to accelerate the total unpaid principal amounts of the Installment Payments. However, in the event of a default and such acceleration there can be no assurance that the District will have sufficient Tax Revenues and Net Revenues to pay the accelerated Installment Payments.

Limitations on Remedies Available; Bankruptcy

The enforceability of the rights and remedies of the Owners and the obligations of the District may become subject to the following: the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; equitable principles which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of

America of the powers delegated to it by the Federal Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State and its governmental bodies in the interest of servicing a significant and legitimate public purpose. Bankruptcy proceedings, or the exercising of powers by the federal or State government, if initiated, could subject the Owners to judicial discretion and interpretation of their rights in bankruptcy or otherwise and consequently may entail risks of delay, limitation, or modification of their rights.

CONCLUDING INFORMATION

Continuing Disclosure

The District has covenanted in a continuing disclosure certificate for the benefit of the holders and beneficial owners of the Certificates to provide certain financial information and operating data relating to the District by not later than nine months following the end of the District's fiscal year (currently June 30), commencing with audited financial statements for the fiscal year ending June 30, 2010, and to provide notices of the occurrence of certain enumerated events, if material. The District will file the annual report and the notices of material events with each nationally recognized municipal securities information repository. The specific information to be included in the annual report and the notice of material events is set forth in Appendix D to this official statement, "Form of Continuing Disclosure Certificate."

During the past five years since the issuance of the 2005 Certificates, the District has failed on a number of occasions to file its annual report on a timely basis. As of the date of this Official Statement, the District has made all required filings and has implemented procedures to help ensure it meets its continuing disclosure obligations in a timely basis in the future.

Legal Matters

Jones Hall, A Professional Law Corporation, San Francisco, California, bond counsel, will render an opinion with respect to the validity and enforceability of the installment sale agreement and the trust agreement. A copy of the legal opinion will accompany the original delivery of each certificate. The form of the legal opinion proposed to be delivered by bond counsel is included as Appendix E to this official statement. Certain legal matters will be passed upon for the District by its District attorney. Payment of the fees and expenses of Jones Hall as bond counsel is contingent upon the sale and delivery of the Certificates.

Tax Matters

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, bond counsel, subject, however to the qualifications set forth below, under existing law, the portion of installment payments designated as and comprising interest and received by the owners of the Certificates is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal individual and corporate alternative minimum taxes, and the Certificates are "qualified tax-exempt obligations" within the meaning of section 265(b)(3) of the Internal Revenue Code of 1986 (the "Tax Code"). In the further opinion of bond

counsel, such interest is exempt from California personal income taxes. In the event that prior to the delivery of the Certificates (i) the interest on other obligations of the same type and character shall be declared to be taxable (either at the time of such declaration or at any further date) under any federal income tax authority or official which is followed by the IRS, or by decision of any federal tax court, or (ii) any federal income tax law is adopted which will have a substantial adverse effect upon owners of the Certificates as such, the successful bidder for the Certificates may, at its option, prior to the tender of the Certificates, be relieved of its obligation to purchase the Certificates, and in such case the deposit accompanying its proposal will be returned.

The opinions set forth in the preceding paragraph are subject to the condition that the District comply with all requirements of the Tax Code that must be satisfied subsequent to the delivery of the installment sale agreement in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The District has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of delivery of the installment sale agreement.

Owners of the Certificates should also be aware that the ownership or disposition of, or the accrual or receipt of interest with respect to, the Certificates may have federal or state tax consequences other than as described above. Bond counsel expresses no opinion regarding any federal or state tax consequences with respect to the installment sale agreement and the Certificates other than as expressly described above.

Absence of Litigation

There is no action, suit, or proceeding known to be pending or threatened, restraining or enjoining the execution or delivery of the Certificates or the installment sale agreement, or in any way contesting or affecting the validity of the foregoing or any proceedings of the District taken with respect to any of the foregoing.

Bank Qualified

The District has designated the Certificates as “qualified tax-exempt obligations” under Section 265(b)(3) of the Tax Code. The District expects that it and all its subordinate entities and entities issuing obligations on its behalf will not issue in the aggregate more than $30 million of tax-exempt obligations during the calendar year 2010 (not counting private activity bonds other than qualified 501(c)(3) bonds).

Rating

Standard & Poor’s, a division of The McGraw-Hill Companies Inc., has assigned a municipal bond rating of “AA-” to the Certificates. Such rating reflect only the views of such organization and any desired explanation of the significance of such rating should be obtained from the Standard & Poor’s, One Market, Steuart Tower 15th floor, San Francisco, California, 94105. Generally, a rating agency bases its rating on the information and materials furnished to it and on

investigations, studies and assumptions of its own. There is no assurance that such rating will continue for any given period of time or that such rating will not be revised downward of withdrawn entirely by the rating agencies if in the judgment of such rating agency, circumstances so warrant. Any downward revision or withdrawal of such rating may have an adverse effect on the market price of the Certificates.

Underwriting

The Certificates are being purchased by Stone & Youngberg LLC (the "Underwriter"). The Underwriter has agreed to purchase all of the Certificates, subject to certain conditions, at a purchase price of $4,197,164.45, which reflects the $4,200,000.00 par amount of the Certificates, plus an original issue premium of $49,586.20, less and underwriter's discount of $52,421.75.

The Underwriter intends to offer the Certificates to the public at the offering prices set forth on the cover of this official statement. The Underwriter may offer and sell the Certificates to certain dealers and others at prices lower than the offering prices stated on the cover page. Offering prices for the Certificates may be changed from time to time by the Underwriter.

Miscellaneous

The quotations from, and summaries and explanations of the installment purchase agreement, the trust agreement, and other statutes and documents contained herein do not purport to be complete, and reference is made to such documents and statutes for full and complete statements of their provisions. Complete copies of the documents are available upon request from the financial advisor prior to the closing and from the District thereafter.

This official statement is submitted only in connection with the sale of the Certificates by the District. All estimates, assumptions, statistical information, and other statements contained herein, while taken from sources considered reliable, are not guaranteed by the District. The information contained herein should not be construed as representing all conditions affecting the District or the Certificates. All information contained in this official statement pertaining to the District has been furnished by the District, and the execution and delivery of this official statement have been duly authorized by the District.

At the time of payment for and delivery of the Certificates, the District will provide a statement executed by the proper officer of the District to the effect that to the best of his knowledge and belief the statements in the official statement as of its date and as of the date of its delivery are true and correct in all material respects and the official statement does not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein in the light of the circumstances under which they were made, not misleading.

Diablo Water District

By _____/s/ Mike Yeraka_____
General Manager

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APPENDIX A

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following is a brief summary of certain provisions of the principal legal documents. Such summary is not intended to be definitive. Reference is made to the actual documents (copies of which are available from the District) for the complete terms thereof.

DEFINED TERMS

The following terms have the following meanings, notwithstanding that any such terms may be elsewhere defined in this Official Statement. Any terms not expressly defined in this Summary but previously defined in this Official Statement have the respective meanings previously given.

"Additional Revenues" means, with respect to the issuance of any Parity Debt, any or all of the following amounts:

(a) An allowance for Net Revenues from any additions or improvements to or extensions of the Water System to be constructed by the District from the proceeds of such Parity Debt, or which have been previously constructed by the District from any other source of funds but which were not in service during any part of the preceding Fiscal Year, in an amount equal to 80% of the estimated additional average annual Net Revenues to be derived from such additions, improvements and extensions for the first 36-month period following the issuance of the proposed Parity Debt, all as shown by the certificate or opinion of a qualified independent consultant employed by the District.

(b) An allowance for Net Revenues arising from any increase in the charges made for service from the Water System which has been adopted prior to the incurring of such Parity Debt, in an amount equal to the total amount by which the Net Revenues would have been increased if such increase in charges had been in effect during the whole of the most recent completed Fiscal Year or during any more recent 12-month period selected by the District, all as shown by the certificate or opinion of a qualified independent consultant employed by the District.

"Bond Counsel" means (a) Jones Hall, A Professional Law Corporation, or (b) any other attorney or firm of attorneys of nationally recognized expertise with respect to legal matters

relating to obligations the interest on which is excludable from gross income for purposes of federal income taxation under Section 103 of the Tax Code.

"Business Day" means a day which is not a Saturday, Sunday or legal holiday on which banking institutions in the State of California or in any other state in which the Trust Office of the Trustee is located, are closed.

"Closing Date" means the date of original execution and delivery of the Certificates.

"Connection Charges" means all amounts levied by the District as a fee for connecting to the Water System, as such fee is established from time to time under the applicable laws of the State of California, including the fee identified by the District as a facilities reserve charge.

"Federal Securities" means: (a) any direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), for which the full faith and credit of the United States of America are pledged; (b) obligations of any agency, department or instrumentality of the United States of America, the timely payment of principal and interest on which are directly or indirectly secured or guaranteed by the full faith and credit of the United States of America.

"Fiscal Year" means each twelve-month period beginning on July 1 in any year during the term of the Installment Sale Agreement and ending on the next succeeding June 30.

"Gross Revenues" means all gross charges received for, and all other gross income and receipts derived by the District from, the ownership and operation of the Water System or otherwise arising from the Water System, including but not limited to investment earnings thereon, and including Connection Charges. "Gross Revenues" do not include (a) the proceeds of any ad valorem property taxes levied for the purpose of paying general obligation bonds of the District relating to the Water System, and (b) the proceeds of any special assessments or special taxes levied upon real property within any improvement district for the purpose of paying special assessment bonds or special tax obligations of the District relating to the Water System.

"Installment Payment Date" means, with respect to any Interest Payment Date, the 5th Business Day preceding such Interest Payment Date.

"Maximum Annual Debt Service" means, as of the date of any calculation, the maximum sum obtained for the current or any future Fiscal Year so long as any of the Certificates remain Outstanding by totaling the following amounts for such Fiscal Year:

(a) the aggregate amount of the Installment Payments coming due and payable in such Fiscal Year, except to the extent payable from any security deposit under the Installment Sale Agreement;

(b) the principal amount of all outstanding Parity Debt, if any, coming due and payable by their terms in such Fiscal Year; and

(c) the amount of interest which would be due during such Fiscal Year on the aggregate principal amount of all outstanding Parity Debt, if any, which would be outstanding in such Fiscal Year if such Parity Debt are retired as scheduled. With respect to any Parity Debt the interest on which is computed at a variable rate, such Parity Debt will be assumed to bear interest at the highest of: (i) the actual rate on the date of calculation, or if the indebtedness is not yet outstanding, the initial rate (if established and binding), (ii) if the indebtedness has been outstanding for at least 12 months, the average rate over the 12 months immediately preceding the date of calculation, or if no debt is outstanding for the 12 months under the authorizing document, the average rate borne by reference to an index comparable to that to be utilized in determining the interest rate for the debt to be issued, and (iii) (A) if interest on the indebtedness is excludable from gross income under the applicable provisions of the Tax Code, the most recently published Bond Buyer "Revenue Bond Index" (or comparable index if no longer published), or (B) if interest is not so excludable, the interest rate on direct U.S. Treasury obligations having comparable maturities.

"Net Revenues" means, for any period, an amount equal to all of the Gross Revenues received during such period minus the amount required to pay all Operation and Maintenance Costs becoming payable during such period.

"Operation and Maintenance Costs" means the reasonable and necessary costs and expenses paid by the District for maintaining and operating the Water System, including but not limited to (a) the cost of acquiring water, (b) the reasonable expenses of management and repair and other costs and expenses necessary to maintain and preserve the Water System in good repair and working order, and (c) the reasonable administrative costs of the District attributable to the operation and maintenance of the Water System; but in all cases excluding (i) interest expense relating to obligations of the District with respect to the Water System, (ii) depreciation, replacement and obsolescence charges or reserves therefor, and (iii) amortization of intangibles or other bookkeeping entries of a similar nature.

"Owner" means, with reference to any Certificate, the person in whose name the Ownership of such Certificate is registered on the registration books maintained by the Trustee for such purpose.

"Parity Debt" means any bonds, notes, leases, installment sale agreements or other obligations of the District payable from and secured by a pledge of and lien upon any of the Net

Revenues on a parity with the Installment Payments, entered into or issued under and in accordance with the Installment Sale Agreement.

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

(a) Federal Securities;

(b) Any direct or indirect obligations of an agency or department of the United States of America whose obligations represent the full faith and credit of the United States of America, or which are rated A or better by S&P.

(c) Interest-bearing deposit accounts (including certificates of deposit) in federal or State chartered savings and loan associations or in federal or State of California banks (including the Trustee), provided that: (i) the unsecured obligations of such commercial bank or savings and loan association are rated A or better by S&P; or (ii) such deposits are fully insured by the Federal Deposit Insurance Corporation.

(d) Commercial paper rated in the highest short-term rating category by S&P.

(e) Federal funds or bankers acceptances with a maximum term of one year of any bank which an unsecured, uninsured and unguaranteed obligation rating in the highest rating category of S&P.

(f) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of at least AAAm-G, AAAm or AAm (such funds may include funds for which the Trustee, its affiliates, parent or subsidiaries provide investment advisory or other management services).

(g) Obligations the interest on which is excludable from gross income pursuant to Section 103 of the Tax Code and which are either (a) rated A or better by S&P, or (b) fully secured as to the payment of principal and interest by Federal Securities.

(h) Obligations issued by any corporation organized and operating within the United States of America having assets in excess of $500,000,000, which obligations are rated A or better by S&P.

(i) Bonds or notes issued by any state or municipality which are rated by S&P in one of the two highest rating categories assigned by S&P.

(j) Any investment agreement with, or guaranteed by, a financial institution the long-term unsecured obligations or the claims paying ability of which are rated A or better by S&P at the time of initial investment, by the terms of which all amounts invested thereunder are required to be withdrawn and paid to the Trustee in the event such rating at any time falls below A.

(k) The Local Agency Investment Fund of the State of California, created pursuant to Section 16429.1 of the California Government Code, to the extent the Trustee is authorized to register such investment in its name.

"Project" means the facilities, improvements and other property described more fully in an Appendix to the Installment Sale Agreement, which may be amended from time to time in accordance with the Installment Sale Agreement.

"Project Costs" means, with respect to the Project, all costs of the acquisition, construction and installation thereof which are paid from moneys on deposit in the Project Fund, including but not limited to:

(a) all costs required to be paid to any person under the terms of any agreement for or relating to the acquisition, construction and installation of the Project;

(b) obligations incurred for labor and materials in connection with the acquisition, construction and installation of the Project;

(c) the cost of performance or other bonds and any and all types of insurance that may be necessary or appropriate to have in effect in connection with the acquisition, construction and installation of the Project;

(d) all costs of engineering and architectural services, including the actual out-of-pocket costs for test borings, surveys, estimates, plans and specifications and preliminary investigations therefor, development fees, sales commissions, and for supervising construction, as well as for the performance of all other duties required by or consequent to the proper acquisition, construction and installation of the Project;

(e) any sums required to reimburse the District for advances made for any of the above items or for any other costs incurred and for work done which are properly chargeable to the acquisition, construction and installation of the Project;

(f) all financing costs incurred in connection with the acquisition, construction and installation of such Project; and

(g) the interest components of the Installment Payments during the period of acquisition, construction and installation of the Project.

"Qualified Reserve Fund Credit Instrument" means an irrevocable standby or direct-pay letter of credit or surety bond issued by a commercial bank or insurance company and deposited with the Trustee under the Trust Agreement, provided that all of the following requirements are met at the time of acceptance thereof by the Trustee: (a) the long-term credit rating of such bank or insurance company is A or better from each Rating Agency; (b) such letter of credit or surety bond has a term of at least 12 months; (c) such letter of credit or surety bond has a stated amount at least equal to the portion of the Reserve Requirement with respect to which funds are proposed to be released; and (d) the Trustee is authorized under the terms of such letter of credit or surety bond to draw thereunder an amount equal to any deficiencies which may exist from time to time in the Installment Payment Fund for the purpose of making payments required under the Trust Agreement.

"Rate Stabilization Fund" means any fund established and held by the District as a fund for the stabilization of rates and charges imposed by the District with respect to the Water System, which fund is established, held and maintained in accordance with the Installment Sale Agreement.

"Rating Agency" means, as of any date, each nationally-recognized municipal bond rating agency which then maintains a rating on the Certificates.

"Reserve Requirement" means, as of the date of calculation, an amount equal to the maximum amount Installment Payments payable by the District under the Installment Sale Agreement in the current or any future Fiscal Year.

"S&P" means Standard & Poor's Corporation, and its successors and assigns.

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

"2005 Agreement" means the Installment Sale Agreement dated as of March 1, 2005 between the District and the Corporation.

"2005 Installment Payments" means all of the installment payments required to be paid by the District under and as defined in the 2005 Agreement, including any amounts payable upon delinquent installments.

"Water Fund" means the fund established and held by the District with respect to the Water System for the deposit of Gross Revenues.

"Water System" means the entire water supply, treatment, storage and distribution system of the District, including but not limited to all facilities, properties and improvements at any time owned, controlled or operated by the District for the supply, treatment, storage and distribution of water to residents within the service area of the District, and any necessary lands, rights, entitlements and other property useful in connection therewith, together with all extensions thereof and improvements thereto at any time acquired, constructed or installed by the District.

INSTALLMENT SALE AGREEMENT

Acquisition and Construction of the Project

The Corporation agrees to supervise the acquisition, construction and installation of the Project in accordance with plans and specifications, purchase orders, construction contracts and other documents relating thereto and approved by the District. The failure of the Corporation to complete the Project by the estimated completion date thereof does not constitute an Event of Default or a grounds for termination of the Installment Sale Agreement, nor will such failure result in the diminution, abatement or extinguishment of the obligations of the District to pay the Installment Payments when due.

The Corporation appoints the District as its agent to carry out all phases of the acquisition, construction and installation of the Project under and in accordance with the provisions of the Installment Sale Agreement. Upon the completion of the Project, the District is required to execute and deliver to the Corporation and the Trustee a written certificate which (a) states that the construction of the Project has been substantially completed, (b) identifies the total Project Costs thereof, and (c) identifies the amounts, if any, to be reserved in the Project Fund for payment of future Project Costs.

Sale of Project; Term

The Corporation agrees to sell the completed Project to the District under the Installment Sale Agreement. The Installment Sale Agreement terminates on the date on which the District has paid all of the Installment Payments and all other amounts due and payable thereunder. Title to the Project, and each component thereof, is deemed conveyed to and vested in the District on the date of completion thereof. The term of the Installment Sale Agreement commences on the Closing Date and ends when the Certificates cease to be outstanding under the Trust Agreement.

Installment Payments

The District agrees to pay Installment Payments as the purchase price of the Project. The Installment Payment are payable solely from the Net Revenues and other funds pledged under the Installment Sale Agreement. The pledge of and lien on the Net Revenues for the security of

the Installment Payments is on a parity with the pledge and lien which secures the 2005 Installment Payments and any Parity Debt.

Deposit of Revenues to Make Payments

All of the Gross Revenues will be deposited by the District immediately upon receipt in the Water Fund which has previously been established by the District and which will continue to be held and maintained by the District at all times during the term of the Installment Sale Agreement. The District covenants and agrees that all Gross Revenues will be held by the District in the Water Fund in trust for the benefit of the Trustee (as assignee of the rights of the Corporation) and the Certificate Owners, and for the benefit of the owners of the 2005 Certificates and any Parity Debt. The District is required to apply amounts on deposit in the Water Fund to pay when due the following amounts in the following order of priority:

- all Operation and Maintenance Costs;
- the 2005 Installment Payments, the Installment Payments and all payments of principal of and interest on any Parity Debt;
- to the Trustee the amount of any deficiency in the Reserve Fund established for the Certificates, in the reserve fund established for the 2005 Installment Payments and in any reserve fund established for Parity Debt, the notice of which deficiency has been to the District in accordance with the Trust Agreement, the 2005 Agreement and the related Parity Debt Documents, respectively;
- any other payments required to comply with the provisions of this Agreement, the 2005 Agreement and any Parity Debt Documents; and
- any other authorized purposes as described in the next paragraph.

The District agrees to manage, conserve and apply the Gross Revenues on deposit in the Water Fund in such a manner that all deposits required to be made under the preceding paragraph will be made at the times and in the amounts so required. Subject to the foregoing sentence, so long as no Event of Default has occurred and is continuing under the Installment Sale Agreement, the District may use and apply moneys in the Water Fund for (i) the payment of any subordinate obligations or any unsecured obligations, (ii) the acquisition and construction of improvements to the Water System, (iii) the prepayment of any other obligations of the District relating to the Water System, or (iv) any other lawful purposes of the District.

No Preference or Priority

Payment of the Installment Payments, the 2005 Installment Payments and any Parity Debt will be made without preference or priority. If the amount of Net Revenues on deposit in

the Water Fund are any time insufficient to enable the District to pay when due the Installment Payments, the 2005 Installment Payments and the principal of and interest on any Parity Debt, such payments will be made on a pro rata basis.

Budget and Appropriation of Installment Payments

During the term of the Installment Sale Agreement, the District is required to adopt all necessary budgets and make all necessary appropriations of the Installment Payments from the Net Revenues. In the event any Installment Payment requires the adoption by the District of any supplemental budget or appropriation, the District will promptly adopt the same. Such covenants of the District are deemed to be and will be construed to be duties imposed by law and it is the duty of each and every public official of the District to take such actions and do such things as are required by law in the performance of the official duty of such officials to enable the District to carry out and perform such covenants.

Option to Prepay

The District has the option to prepay the Installment Payments or post a security deposit to pay the Installment Payments, in whole or in part, in the amounts and on the dates set forth in the Installment Sale Agreement. The optional prepayment dates and prices have been determined to correspond to the optional prepayment dates and prices applicable to the Certificates under the Trust Agreement.

Superior and Subordinate Obligations

The District will not issue or incur any additional bonds or other obligations during the term of the Installment Sale Agreement having any priority in payment of principal or interest out of the Gross Revenues or the Net Revenues over the Installment Payments. Nothing limits or affects the ability of the District to issue or incur (a) Parity Debt, or (b) obligations which are either unsecured or which are secured by an interest in the Gross Revenues or the Net Revenues which are junior and subordinate to the pledge and lien established under the Installment Sale Agreement.

Issuance of Parity Debt

Except for obligations incurred to prepay or post a security deposit for the payment of Installment Payments or Parity Debt, the District will not issue or incur any Parity Debt during the term of the Installment Sale Agreement unless all of the following conditions are met:

- No Event of Default has occurred and is continuing.

- The Net Revenues, calculated in accordance with sound accounting principles, as shown by the books of the District for the latest Fiscal Year or as shown by the books of the District for any more recent 12 month period

selected by the District, in either case verified by a certificate or opinion of an Independent Accountant employed by the District, plus (at the option of the District) the Additional Revenues, are at least equal to 125% of the amount of Maximum Annual Debt Service. For purposes of this requirement, amounts transferred from a Rate Stabilization Fund to the Water Fund will not be included in the Gross Revenues.

- The trustee or fiscal agent (if any) for such Parity Debt is the same entity performing the functions of Trustee under the Trust Agreement.

Rate Stabilization Fund

The District has the right at any time to establish a Rate Stabilization Fund for the purpose of stabilizing the rates and charges imposed by the District with respect to the Water System. From time to time the District may deposit amounts in the Rate Stabilization Fund, from any source of legally available funds, including but not limited to Net Revenues which are released from the pledge and lien which secures the Installment Payments and any Parity Debt, as the District may determine.

The District may, but is not be required to, withdraw amounts on deposit in the Rate Stabilization Fund and deposit such amounts in the Water Fund in any Fiscal Year for the purpose of paying the Installment Payments or the principal of and interest on any Parity Debt coming due and payable in such Fiscal Year. Amounts so transferred from the Rate Stabilization Fund to the Water Fund in any Fiscal Year constitute Gross Revenues for that Fiscal Year (except for purposes of meeting the coverage requirement for issuing Parity Debt), and will be applied for the purposes of the Water Fund. Amounts on deposit in the Rate Stabilization Fund are not pledged to and do not secure the Installment Payments, the 2005 Installment Payments or any Parity Debt. All interest or other earnings on deposits in the Rate Stabilization Fund will be retained therein or, at the option of the District, be applied for any other lawful purposes. The District has the right at any time to withdraw any or any amounts on deposit in the Rate Stabilization Fund and apply such amounts for any other lawful purposes of the District.

Rates and Charges

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

(a) All Operation and Maintenance Costs estimated by the District to become due and payable in the Fiscal Year.

(b) All Installment Payments, the 2005 Installment Payments and all payments of principal of and interest on any Parity Debt as they become due and payable during the Fiscal Year, without preference or priority. If interest with respect to any Parity Debt is computed at a variable rate, the amount required to be taken into account for any Fiscal Year under this covenant is the actual rate borne by such Parity Debt during such Fiscal Year.

(c) All amounts, if any, required to restore the balance in the Reserve Fund to the full amount of the Reserve Requirement.

(d) All payments required to meet any other obligations of the District which are charges, liens, encumbrances upon, or which are otherwise payable from, the Gross Revenues or the Net Revenues during such Fiscal Year.

Net Revenues Covenant. In addition, the District will fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Water System during each Fiscal Year which are sufficient to yield Net Revenues which are at least equal to 125% of the amount of Installment Payments and all payments of principal of and interest on any Parity Debt coming due and payable during the Fiscal Year. For purposes of this covenant, the amount of Net Revenues for a Fiscal Year will be computed by including in Gross Revenues all Connection Charges received in the Fiscal Year and all amounts transferred into the Water Fund from the Rate Stabilization Fund during the Fiscal Year.

Sale or Eminent Domain of Water System

The District covenants that the Water System will not be encumbered, sold, leased, pledged, any charge placed thereon, or otherwise disposed of, as a whole or substantially as a whole if such encumbrance, sale, lease, pledge, charge or other disposition would materially impair the ability of the District to pay the Installment Payments or the principal of or interest on any Parity Debt, or would materially adversely affect its ability to comply with the terms of the Installment Sale Agreement. The District may not enter into any agreement which impairs the operation of the Water System or any part of it necessary to secure adequate Net Revenues to pay the Installment Payments, the 2005 Installment Payments or any Parity Debt, or which otherwise would impair the rights of the Certificate Owners or the Trustee with respect to the Net Revenues. If any substantial part of the Water System is sold, the payment therefor must either (a) be used for the acquisition or construction of improvements and extensions or replacement facilities or (b) be applied on a pro rata basis to prepay the Installment Payments, the 2005 Installment Payments and any Parity Debt on the next available prepayment date.

Any amounts received as awards as a result of the taking of all or any part of the Water System by the lawful exercise of eminent domain, if and to the extent that such right can be exercised against such property of the District, shall either (a) be used for the acquisition or construction of improvements and extension of the Water System, or (b) be applied on a pro

rata basis to prepay the Installment Payments, the 2005 Installment Payments and any Parity Debt on the next available prepayment date.

Insurance

The District will at all times maintain with responsible insurers all such insurance on the Water System as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to such works or properties. If any useful part of the Water System is damaged or destroyed, such part must be restored to use. All amounts collected from insurance against accident to or destruction of any portion of the Water System will be used to repair or rebuild such damaged or destroyed portion of the Water System, and to the extent not so applied, will be applied on a pro rata basis to pay or prepay the Installment Payments, the 2005 Installment Payments and any Parity Debt.

The District will also maintain worker's compensation insurance and insurance against public liability and property damage to the extent reasonably necessary to protect the District.

Any such policy of insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the District, and may be maintained in whole or in part in the form of self-insurance by the District or in the form of the participation by the District in a joint powers agency or other program providing pooled insurance.

Assignment and Amendment of Installment Sale Agreement

The Installment Sale Agreement may not be assigned by the District in whole or in part. The Installment Sale Agreement may be amended by the District and the Corporation, but only (a) for the purpose of providing for the issuance of any Parity Debt in accordance with the Installment Sale Agreement, or (b) otherwise under the circumstances and to the extent permitted under the Trust Agreement. See "TRUST AGREEMENT - Amendment of Trust Agreement or Installment Sale Agreement" below.

Events of Default

Each of the following constitutes an event of default under the Installment Sale Agreement:

- Failure by the District to pay any Installment Payment when due and payable.

- Failure by the District to pay any other payment due under the Installment Sale Agreement when due and payable, and the continuation of such failure for a period of 30 days.

- Failure by the District to observe and perform any covenant, condition or agreement on its part to be observed or performed, other than as referred to in the preceding clauses (a) or (b), for a period of 30 days after written notice specifying such failure and requesting that it be remedied has been given to the District by the Corporation, the Trustee; *provided, however,* that if the District notifies the Corporation and the Trustee that in its reasonable opinion the failure stated in the notice can be corrected, but not within the 30-day period, the failure will not constitute an event of default if the District commences to cure such failure within the 30 day period and thereafter diligently and in good faith cures such failure in a reasonable period of time.

- Certain events relating to the insolvency or bankruptcy of the District.

- The occurrence of any event defined to be an event of default under the 2005 Agreement or under the documents authorizing the issuance of any Parity Debt.

Remedies on Default

Whenever any event of default has happened and is continuing, the Trustee as assignee of the Corporation has the right, at its option and without any further demand or notice, to:

- declare all principal components of the unpaid Installment Payments, together with accrued interest thereon at the respective rates of interest per annum represented by the outstanding Certificates from the immediately preceding Interest Payment Date on which payment was made, to be immediately due and payable, whereupon the same will immediately become due and payable;

- take whatever action at law or in equity may appear necessary or desirable to collect the Installment Payments then due or thereafter to become due during the term of the Installment Sale Agreement, or enforce performance and observance of any obligation, agreement or covenant of the District under the Installment Sale Agreement; and

- as a matter of right, in connection with the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and the Certificate Owners, cause the appointment of a receiver or receivers of the Gross Revenues and other amounts pledged, with such powers as the court making such appointment may confer.

No remedy conferred upon or reserved to the Corporation under the Installment Sale Agreement is intended to be exclusive and every such remedy will be cumulative and in addition

to every other remedy given under the Installment Sale Agreement or at any time existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default will impair any such right or power or will be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient.

Such rights and remedies as are given to the Corporation under the Installment Sale Agreement have been assigned by the Corporation to the Trustee under the Trust Agreement, and will be exercised by the Trustee and the Owners of the Certificates as provided in the Trust Agreement.

TRUST AGREEMENT

Trustee

The Trustee is appointed under the Trust Agreement and is authorized to prepare, execute and deliver the Certificates thereunder, and to act as a depository of amounts held thereunder. The Trustee is required to make deposits into and withdrawals from funds, and invest amounts held under the Trust Agreement in accordance with the District's instructions.

Funds

The Trust Agreement creates the Installment Payment Fund, the Reserve Fund and the Project Fund to be held in trust by the Trustee.

Installment Payment Fund. There will be deposited in the Installment Payment Fund, when received by the Trustee, all Installment Payments and prepayments thereof (except reimbursement for funds drawn from the Reserve Fund, as described below). Moneys on deposit in the Installment Payment Fund will be used to pay principal and interest represented by the Certificates when due and payable. Any earnings on investment of moneys in the Installment Payment Fund will remain therein. Any surplus remaining in the Installment Payment Fund after the payment of all Certificates, or provision for their payment has been made, will be paid to the District.

Costs of Issuance Fund. The Trustee will establish and maintain a Costs of Issuance Fund. The Trustee will disburse amounts in the Costs of Issuance Fund to pay costs of issuance relating to the Certificates from time to time upon the receipt of a written requisition of the District which states (i) the amounts to be disbursed for payment or reimbursement of costs of issuance, (ii) the name and address of the person or persons to whom said amounts are to be disbursed, and (iii) that all amounts to be disbursed are for costs of issuance properly chargeable to the Costs of Issuance Fund. On August 1, 2010, the Trustee will transfer any funds remaining in the Costs of Issuance Fund to the Project Fund.

Project Fund. The Trustee will establish and maintain a separate fund to be known as the "Project Fund". Moneys in the Project Fund will be used solely for the payment of the Project Costs. The Trustee will disburse moneys in the Project Fund from time to time to pay Project Costs (or to reimburse the District for payment of Project Costs) in accordance with written requisitions filed with the Trustee by the District from time to time. Any amounts remaining on deposit in the Project Fund and not required to complete the acquisition and construction of the Project will be transferred by the Trustee to the Installment Payment Fund.

If an Event of Default occurs under the Installment Sale Agreement prior to the closure of the Project Fund by the Trustee, the Trustee will transfer all amounts remaining on deposit in the Project Fund to the Installment Payment Fund, to be credited to the payment of the Installment Payment then in default.

Reserve Fund. The Trustee has established a special fund designated as the "Reserve Fund" to be held in trust for the benefit of the District and the Owners of the Certificates, as a reserve for the payment when due of the Installment Payments on behalf of the District. The Reserve Fund will be maintained by the District in an amount equal to the Reserve Requirement. The Trustee will transfer all amounts on deposit in the Reserve Fund at any time in excess of the Reserve Requirement, including amounts derived from the investment of amounts in the Reserve Fund which are not required to be retained therein to maintain the Reserve Requirement, to the Installment Payment Fund semiannually on or before each Installment Payment Date.

If three Business Days prior to any Interest Payment Date the moneys available in the Installment Payment Fund are not at least equal to the amount of the Installment Payment coming due and payable on that Interest Payment Date, the Trustee will apply the moneys available in the Reserve Fund to make such payments on behalf of the District by transferring the amount necessary for this purpose to the Installment Payment Fund. If on any Interest Payment Date the moneys on deposit in the Reserve Fund and the Installment Payment Fund (excluding amounts required for payment of principal, interest and prepayment premium, if any, represented by any Certificates theretofore having come due but not presented for payment) are sufficient to pay all Outstanding Certificates, including all principal, interest and prepayment premiums (if any), the Trustee will, upon the written request of the District, transfer all amounts then on deposit in the Reserve Fund to the Installment Payment Fund to be applied for such purpose to the payment of the Installment Payments on behalf of the District.

Qualified Reserve Fund Credit Instrument

The District may at any time release funds from the Reserve Fund, in whole or in part, by tendering to the Trustee: (a) a Qualified Reserve Fund Credit Instrument, and (b) an opinion of Bond Counsel stating that such release will not, of itself, cause interest represented by the Certificates to become includable in gross income for purposes of federal income taxation. Upon tender of such items to the Trustee, the Trustee will transfer such funds from the Reserve Fund to the District for deposit into a separate account to be held by the District and expended

to finance the Water System in accordance with applicable state and federal law. Upon the expiration of any Qualified Reserve Fund Credit Instrument, the District will either (a) replace such Qualified Reserve Fund Credit Instrument with a new Qualified Reserve Fund Credit Instrument, or (b) deposit or cause to be deposited with the Trustee an amount of funds equal to the Reserve Requirement, to be derived from any source of legally available funds of the District.

Investment of Funds

The Trustee is required to invest and reinvest all moneys held under the Trust Agreement, at the written direction of the District, in Permitted Investments maturing not later than the date moneys are expected to be required for expenditure. In the absence of any written request of the District directing the investment of uninvested moneys held by the Trustee, the Trustee will invest such moneys in Permitted Investments constituting money market funds which mature not later than the date such moneys are required or estimated by the Trustee to be required to be expended. Such investments, if registrable, will be registered in the name of the Trustee, as trustee or in the name of its nominee, and will be held by the Trustee. The Trustee may purchase or sell to itself or any affiliate, as principal or agent, investments authorized by the Trust Agreement. Such investments and reinvestments will be made giving full consideration to the time at which funds are required to be available. The Trustee may act as purchaser or agent in the making or disposing of any investment. For purposes of acquiring any investments under the Trust Agreement, the Trustee may in its sole discretion commingle funds held by it.

All earnings on the investment of amounts on deposit in the funds and accounts established under the Trust Agreement will be deposited in such funds and accounts, except that all earnings on the investment of amounts in the Reserve Fund will be transferred to the Installment Payment Fund, to the extent not required to be retained in the Reserve Fund to maintain the Reserve Requirement.

Amendment of Agreements

Amendments Permitted With Certificate Owners' Consent. The Trust Agreement and the rights and obligations of the Owners of the Certificates, and the Installment Sale Agreement and the rights and obligations of the parties thereto, may be modified or amended at any time with the written consents of the Owners of a majority in aggregate principal amount of the Certificates then outstanding. No such modification or amendment may (a) extend or have the effect of extending the fixed maturity of any Certificate or reducing the interest rate with respect thereto or extending the time of payment of interest, or reducing the amount of principal thereof or reducing any premium payable upon the prepayment thereof, without the express consent of the Owner of such Certificate, or (b) reduce or have the effect of reducing the percentage of Certificates required for the affirmative vote or written consent to an amendment or modification of the Installment Sale Agreement, or (c) modify any of the rights or obligations of the Trustee without its written consent.

Amendments Permitted Without Owners' Consent. The Trust Agreement and the rights and obligations of the Owners of the Certificates and the Installment Sale Agreement and the rights and obligations of the respective parties thereto, may be modified or amended at any time by a supplemental agreement, without the consent of any of the Certificate Owners, only to the extent permitted by law and only for one of more of the following purposes:

- to add to the covenants and agreements of any party, other covenants to be observed, or to surrender any right or power reserved to the Corporation or the District,

- to cure, correct or supplement any ambiguous or defective provision contained therein,

- in any respect whatsoever in regard to questions arising thereunder, as the parties thereto may deem necessary or desirable and which do not, in the opinion of Bond Counsel, materially adversely affect the interests of the Owners of the Certificates,

- to provide for matters relating to the issuance of Parity Debt, or

- if and to the extent permitted in the opinion of Bond Counsel filed with the Trustee, the District and the Corporation, to delete or modify any of the provisions thereof relating to the exclusion from gross income for federal income tax purposes of interest represented by the Certificates.

Remedies Upon Event of Default

Remedies Generally. If an event of default occurs under and as defined in the Installment Sale Agreement, then and in each and every such case during the continuance of such event of default, the Trustee may, and at the written direction of the Owners of a majority in aggregate principal amount of the Certificates then outstanding the Trustee will exercise any and all remedies available under law or granted under the Installment Sale Agreement. The Trustee must immediately notify the Certificate Owners upon the occurrence of any event of default of which the Trustee has knowledge in accordance with the Trust Agreement.

Application of Funds. All moneys received by the Trustee under any right given or action taken under the provisions of the Trust Agreement or the Installment Sale Agreement, and any other funds then held by the Trustee, will be applied by the Trustee in the order following upon presentation of the several Certificates, and the stamping thereon of the payment if only partially paid, or upon the surrender thereof if fully paid -

First, to the payment of the fees, costs and expenses of the Trustee and of the Certificate Owners in declaring and enforcing such Event of Default and in

the performance of its powers and duties under the Trust Agreement including reasonable compensation to its agents, attorneys and counsel, and then to the Certificate Owners in declaring and enforcing an Event of Default, including compensation to its agents, attorneys and counsel;

Second, to the payment of the whole amount then owing and unpaid with respect to the Certificates for principal and interest, with interest on the overdue principal and installments of interest at the respective rates represented by the outstanding Certificates (but such interest on overdue installments of interest will be paid only to the extent funds are available therefor following payment of principal and interest and interest on overdue principal, as aforesaid), and in case such moneys are insufficient to pay in full the whole amount so owing and unpaid with respect to the Certificates, then to the payment of such principal and interest without preference or priority of principal over interest, or of interest over principal, or of any installment of interest over any other installment of interest, ratably to the aggregate of such principal and interest.

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

Remedies Not Exclusive. No remedy conferred upon or reserved to the Trustee or to the Certificate Owners is intended to be exclusive of any other remedy, and every such remedy will be cumulative and will be in addition to every other remedy given under the Trust Agreement or at any time existing, at law or in equity or by statute or otherwise.

Power of Trustee to Control Proceedings. In the event that the Trustee, upon the happening of an event of default, has taken any action, by judicial proceedings or otherwise, under its duties under the Trust Agreement, whether upon its own discretion or upon the request of the Owners of a majority in aggregate principal amount of the Certificates then outstanding, it will have full power, in the exercise of its discretion for the best interests of the Owners of the Certificates, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action.

Limitation on Certificate Owners' Right to Sue. No Owner of any Certificate has the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Trust Agreement, unless (a) such Owner has previously given to the Trustee written notice of

the occurrence of an event of default; (b) the Owners of a majority in aggregate principal amount of all the Certificates then outstanding have made written request upon the Trustee to exercise its powers or to institute such action, suit or proceeding in its own name; (c) said Owners have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee has refused or failed to comply with such request for a period of 60 days after such written request has been received by, and said tender of indemnity has been made to, the Trustee.

Defeasance

Upon payment of the outstanding Certificates in whole, or upon the deposit of cash or non-callable Federal Securities with the Trustee sufficient with other available funds to retire the obligations represented by such Certificates at or before maturity, all rights thereunder of the Owners of such Certificates and all obligations of the Corporation, the Trustee and the District with respect to the Certificates ceases and terminates, except only the obligation of the Trustee to pay or cause to be paid, from Installment Payments paid by or on behalf of the District from funds so deposited, all sums represented thereby when due.

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APPENDIX B

AREA STATISTICAL INFORMATION

General Information

The Diablo Water District provides water service to a population of roughly 34,000 in and around the City of Oakley, California. The District's sphere of influence includes small portions of the Cities of Antioch and Brentwood. The City of Oakley is located in the eastern portion of Contra Costa County, along the shore of the Sacramento-San Joaquin Delta. The City is approximately 12.4 square miles in area. The City is located near the cities of Pittsburg, Antioch, and Brentwood, and is approximately 50 miles northeast of San Francisco and 50 miles south of Sacramento near the junction of State Highway 4 and State Highway 160.

Population

The following table shows a five-year history of Oakley's population as estimated by the California State Department of Finance.

City of Oakley Population on January 1

	2005	2006	2007	2008	2009
Population	28,961	29,341	31,747	33,189	34,468
Annual Increase	-	1.3%	8.2%	4.5%	3.9%

Source: California State Department of Finance

Employment

The City of Oakley is part of the Oakland Metropolitan Statistical Area which encompasses Contra Costa County and Alameda County. This table summarizes historical employment information obtained from the California State Employment Development Department. In 2009, the annual average unemployment rate for Contra Costa County was 10.3% and the unemployment rate for the State of California was 11.4%.

Oakland MSA (Alameda County and Contra Costa County) Employment

	2004	2005	2006	2007	2008
Employment by Place of Work					
Agriculture	800	800	700	700	700
Manufacturing - Durable Goods	8,600	8,200	8,700	8,400	8,300
Manufacturing - Nondurable Goods	12,000	11,600	11,600	12,200	12,500
Wholesale Trade	9,000	8,800	9,100	9,100	8,700
Retail Trade	43,400	44,000	44,000	44,400	43,900
Transportation, Warehousing & Utilities	7,500	7,600	8,400	8,800	8,800
Information	14,000	13,500	13,400	13,000	11,900
Finance & Insurance	25,000	26,400	24,700	22,400	20,000
Real Estate, Rental, & Leasing	7,600	7,600	7,400	6,800	6,400
Profession, Scientific, & Technical Services	21,700	22,800	23,700	23,100	23,100
Management of Companies & Enterprises	5,700	5,800	7,800	7,500	7,800
Administrative & Support & Waste Services	18,600	18,100	19,000	18,700	18,500
Educational Services	5,300	5,400	5,900	6,100	6,300
Health Care & Social Assistance	35,800	35,400	36,800	38,500	39,400
Arts, Entertainment, & Recreation	5,800	6,100	6,000	5,800	5,700
Accomodation & Food Services	24,500	25,400	26,400	27,400	27,200
Other Services	13,900	12,300	12,200	12,600	13,800
Federal Government	6,400	5,900	6,500	6,500	6,700
State Government	800	800	900	1,000	1,100
Local Government	42,100	43,500	41,500	44,700	43,900
Total	308,500	310,000	314,700	317,700	314,700

Source: California State Employment Development Department

The following table lists Contra Costa County's 20 largest employers along with an estimate of each company's number of employees.

Contra Costa County's Largest Employers

Employer	Industry	No. of Employees
AT&T Corp	Telecommunications Resellers	8,500
Contra Costa County Inc	Other Individual & Family Services	7,574
Summervillle Management LLC	Nursing Care Facilities	4,000
John Muir Physician Network	General Medical & Surgical Hospitals	3,891
Pacpizza LLC	Limited-Service Restaurants	3,600
Mt Diablo Unified School District	Elementary & Secondary Schools	3,226
Kaiser Foundation Hospitals	General Medical & Surgical Hospitals	2,852
United States Postal Service	Postal Service	2,500
Safeway Inc	Supermarkets & Other Grocery Stores	2,475
Diablo Valley College Foundation	All Other Support Services	2,020
AT&T Services Inc	Telecommunications Resellers	2,018
Home Depot USA Inc	Home Centers	1,750
Celico Partnership	Radio, Television, & Other Electronics Stores	1,735
Department of California	Offices of Physicians	1,676
West Contra Costs Unified School District	Elementary & Secondary Schools	1,667
John Muir Health	General Medical & Surgical Hospitals	1,600
Bio-Rad Laboratories Inc	Analytical Laboratory Instrument Manufacturing	1,405
Albertson's LLC	Supermarkets & Other Grocery Stores	1,405
Chevron Corp	Petroleum Refineries	1,342
Target Corp	Department Stores	1,325

Source: Economic Development Alliance for Business

Assessed Property Value

The following table shows a history of the City of Oakley's assessed valuations.

City of Oakley Assessed Property Value ($000,000)

	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Secured	$1,566	$1,772	$2,006	$2,907	$3,557	$3,372	$2,674
Unsecured	35	33	37	41	47	47	47
Total	1,601	1,805	2,044	2,948	3,604	3,419	2,722
Local Exemptions	(11)	(10)	(14)	(19)	(41)	(43)	(86)
Net Value	1,590	1,795	2,029	2,929	3,564	3,376	2,636
Annual Change %		12.9%	13.1%	44.3%	21.7%	-5.2%	-21.9%

Source: Contra Costa County Assessors Office.

Retail Sales

The following table shows a history of taxable sales in the City of Oakley and Contra Costa County from 2004 through 2008.

City of Oakley Taxable Sales ($000)

	2004	2005	2006	2007	2008
Total Taxable Sales					
City of Oakley	$92,880	$104,394	$110,243	$135,111	$125,877
Contra Costa County	12,990,538	13,480,075	13,867,661	14,086,295	13,307,681

Source: California State Board of Equalization

Building Activity

The following table shows a five-year history of Contra Costa County's annual building permit valuations and the number of new dwellings.

Contra Costa County Building Permit Valuations & Number of New Dwellings

Permit Valuation	2005	2006	2007	2008	2009
Residential					
New Single Family	$163,034,874	$201,692,218	$98,567,026	$55,449,389	$60,170,814
New Multi-Family	10,981,806	0	25,462,222	4,003,890	0
Residential Alterations/Additions	2,654,593	2,063,239	2,206,547	929,805	1,464,756
Total Residential	176,671,273	203,755,457	126,235,795	60,383,084	61,635,570
Non-Residential					
New Commercial	2,440,030	616,533	8,586,868	0	0
New Industrial	0	0	0	0	0
New Other	6,170,130	4,959,373	5,991,590	2,216,381	1,586,497
Commercial Alterations/Additions	218,460	737,390	1,568,000	251,020	1,444,933
Total Non-Residential	8,828,620	6,313,296	16,146,458	2,467,401	3,031,430
Total All Permit Valuation	185,499,893	210,068,753	142,382,253	62,850,485	64,667,000
New Dwelling Units					
Single Family	530	607	291	163	210
Multiple Family	96	0	262	54	0
Total New Dwelling Units	626	607	553	217	210

Source: Construction Industry Research Board, "Building Permit Summary"

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APPENDIX C

AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009

DIABLO WATER DISTRICT

AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2009

DIABLO WATER DISTRICT

JUNE 30, 2009

BOARD OF DIRECTORS

John H. deFremery	President
Howard Hobbs	Vice-President
Kenneth L. Crockett	Member
Edward Garcia	Member
Richard R. Head	Member

SECRETARY-MANAGER

Mike Yeraka

ATTORNEY FOR THE DISTRICT

Jeffrey D. Polisner

DIABLO WATER DISTRICT

JUNE 30, 2009

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GRIFFIN & PÓKA, INC.
CERTIFIED PUBLIC ACCOUNTANTS
900 COURT STREET
MARTINEZ, CA 94553

JOHN E. GRIFFIN, CPA (1916-1996)
GEOFFREY M. GRIFFIN, CPA
JOSEPH PÓKA, JD, CPA

(925) 228-2800
FAX (925) 228-6634

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Diablo Water District
P. O. Box 127
Oakley, CA 94561

Gentlemen:

We have audited the accompanying balance sheet of Diablo Water District as of June 30, 2009, and the related statements of revenues and expenses, changes in fund equity, and cash flows for the year then ended. 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 audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Diablo Water District as of June 30, 2009, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The comments and cash flow statement from operations are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

GRIFFIN & POKA, INC.
CERTIFIED PUBLIC ACCOUNTANTS

February 28, 2010

MANAGEMENT'S DISCUSSION AND ANLYSIS

This section presents management's analysis of Diablo Water District's (DWD) financial condition and activities for the year.

Financial Highlights

Management believes the District's financial condition is strong. The District is well within the financial policies and guidelines set by the Board of Directors and management. The following are key financial highlights:

- Operating revenues of water sales were $6.656 million, a decrease from 2008 in the amount of $139,000 or 2%. Mostly due to the increase in bank owned properties with no water use. Total operation revenue did not meet our budget projections.

- Operating expenses increased $ 121,286 for 1.7% over 2008 primarily due to the RBWTP pH control e project. Our Glen Park Well was able to keep up with the demand increase holding down the increase in water purchases.

- July 2003 Contra Costa County transferred ownership of well systems, Knightsen M25, Beacon West M26 and Willow Park Marina M27. Upon this transfer the District also received fund balances totaling $59,000. In the past years the District had been contracted to maintain these same well systems. The county billed the users for water service and paid DWD for its services. DWD now bills the users of the Knightsen well system and receives payment for users of Beacon West and Willow Park Marina well systems from the county property tax roll. Fund balance for year ending June 2009 for Knightsen well system was ($20,931), Beacon West well system $42,960 and Willow Park Marina $124,345.

  DWD continued its Service Maintenance Contract with the County to maintain Willow Mobile Home Park M28. Income through June 2009 for this maintenance totaled $21,122.

- DWD entered into a Service Maintenance agreement with Delta Mutual Water Company in 1999. DWD maintains the well system. In addition DWD bills and collects the well system's water charges. Monthly DWD transfers to Delta Mutual all monies collected from the well system's users and bills Delta Mutual for the actual cost of material, and personnel in accordance with the agreement. Income through June 2009 totaled $ 8,127.

- Rock Island Marina – This subdivision is currently under construction and revenue will be collected from the property tax rolls as well as billing based on water meter usage to cover variable costs such as power & chemicals. The property was recently foreclosed by the Bank.

- Brentwood Overlap – Some of the land south of Neroly Road and Delta Road was in both DWD and City of Brentwood's corporate territories creating an overlap of potential service areas. In 2000 this area was detached from DWD's territory and was annexed to Brentwood to eliminate the overlap of service areas. For connections in the overlap area the City of Brentwood agreed to pay connection fees to DWD at the time of connection. . Total connection fees collected for this overlap area through fiscal year ending June 30, 2009 was $30,145.

- Brentwood Intertie - DWD entered into an agreement with the City of Brentwood in 1996 for the construction of the water main connecting the City's distribution system to DWD's. This enabled DWD to transport treated water (purchased from Contra Costa Water District (CCWD) by City of Brentwood) from Randall Bold Water Treatment Plant (RBWTP) to the City of Brentwood. Brentwood agreed to pay DWD for costs associated with the operation and maintenance of the intertie, pumping charges, energy demand charges and any additional charges. In 2005 Brentwood entered into an agreement with Contra Costa Water to receive treated water from RBWTP directly and began construction of a water pipeline from RBWTP to the City of Brentwood. In October 2005 Brentwood started receiving water through their pipeline and began disassembling the intertie between DWD and Brentwood.

  Terms of the agreement requires DWD to reimburse the City of Brentwood $58,500, in six annual payments commencing on January 1, 2008 and ending January 1, 2013.

- RBWTP – In June 1989 DWD and CCWD entered into a Joint Exercise of Powers Agreement to construct a water treatment plant to be co-owned. CCWD owns 62.5% and DWD 37.5%. CCWD employees run the plant. Annually CCWD presents the budget for the next fiscal year. DWD pays monthly its share of the operation and maintenance expenses. After the actual expenses are audited, a reconciliation payment is made either to or from DWD. Reconciliation for year ending 2009 resulted in payment to DWD by CCWD of $131,802. Total paid to CCWD for DWD's share of RBWTP expenses for year ending June 2009 was $1,328,265.

RBWTP Bond – DWD makes semi-annual payments to CCWD for our share of construction cost of RBWTP per the Joint Exercise of Power agreement. Total paid for year 2008/2009 was $1,227.411.

August 2008 CCWD sold six parcels of unused land purchased for the Randal Bold Water Treatment Plant, DWD's share of the land sale was $155,997.

~ Main Extension Reimbursement Fund – Included in the per lot connection fee is an amount assessed for Main Extension Reimbursement. This fund is used to reimburse developers who are required to install oversized water lines for future use. Reimbursement for year ending June 30, 2009 totaled $175,316. Fund balance for year ending June 30, 2009 is $ 971,736.

~ Developers Connection Fees collected for the year ending June 30, 2009 totaled $211,948, $ 288,052 less than Budget and $ 252,017 less than last year.

~ Sandhill Project – The State of California Department of Health declared water wells in the Sandhill area (approximately 56) contaminated and hazardous to health for human consumption. As a Safe Drinking Water emergency project DWD annexed the area. A 12" water main from Laurel Road south to Bolton Road including Ray Avenue, Malicoat Avenue, Douglas Road and Hill Avenue was constructed to provide domestic water supply and eliminate the use of the existing nitrate impacted private wells.

DWD entered into a contract between the State of California Department of Water Resources for a loan of $275,500 payable over 35 years to finance the construction of the pipeline. An assessment on each parcel for construction costs and connection fees was assessed through the Contra Costa County property tax roll.

June 1, 2005 DWD paid the loan balance of $199,772. This enabled DWD to get a better Bond Rating which gave us a lower interest rate for the financing of the Glen Park Well System.
Total collected from Contra Costa County property tax roll was $14,499.

~ The Glen Park Well System was completed in July 2006. For the year ending June 30, 2009 this system supplemented 234,622 million gallons of water which equals a savings of $368,356 of raw water purchases. Total operating expenses were $58,344, which are comparable to the savings in operating costs at RBWTP for treating less water at the plant.

January 2005 DWD authorized the issuance and sale of 2005 Water Revenue Certificates of Participation in an amount not to exceed $7.5 million for the purpose of providing funds to finance the Well System project. In March 2005 DWD entered into an agreement with Union Bank of California establishing Union Bank as trustee to execute and deliver the Certificates and to deposit proceeds in a fund for payment of project costs as requisitioned by DWD. In March 2005 DWD also entered into the Installment Sale Agreement with Public Property Financing Corporation of California which established a semiannual payment schedule. Total payments for year ending June 30, 2009 were $460,138.

In July 2008 DWD began searching for a location for a second well. The Stone Creek location was selected and the investigation began. Total for year ending June 30, 2009 for investigation and design was $ 150,339.

~ A new 5 million gallon water reservoir design has been completed. A contract for the construct was awarded to Pacific Tank & Construction, Inc in amount of $3,203,000. The cost of the reservoir design and construction is expected to be $5,000,000. Developer connection fees will fund this project. Total construction expenses for this project for year ending June 30, 2009 was $1,294,349.

~ In December 2007 construction of the South Park Well was completed by Shea Homes as part of the summer Lakes subdivision and DWD took over ownership of the well at that time. The well serves three purposes; backup drinking water supply for the Summer Lakes subdivision, water to keep the lake level topped-off and irrigation for a large park turf area. DWD bills the Summer Lakes Homeowners association for the Lake Fill and Irrigation water on a monthly basis at the well water rate identified in the District's Regulations. Monies collected from the South Park well billing are kept in a separate fund and are used to pay District costs to operate the well system. The net income for the well system for the year ending June 30, 2009 was $58,856.

~ Deferred Compensation - DWD offers its employees a deferred compensation plan in accordance with Section 457 of the Internal Revenue Code.

All amounts of compensation represent a general obligation of the District. The deferred account is administered by Lincoln Financial Group. Balance at year end June 2009 was $285,730.

- As required by General Accounting Standards Board Statement Number 45 (GASB 45), DWD entered into contract with Bickmore Risk Services to perform an actuarial valuation of other post employment benefits liabilities. On completion of the actuarial valuation on May 27, 2009, the Board of Directors authorized the General Manager to enter discussions with CalPers to determine the details of becoming part of the California Employers' Retiree Benefit Trust beginning by June 30, 2010, with the intent of being fully funded over a period of ten years. Total cost of the Actuarial Valuation as of June 2009 was $5,000.

- Infrastructure

  Management discussed booking infrastructure as required by Governmental Accounting Standards Board Statement Number 34 (GASB 34). The District elected to use the basic method and to report infrastructure acquisitions prospectively.

DIABLO WATER DISTRICT

STATEMENT OF NET ASSETS
JUNE 30, 2009

ASSETS

Current Assets:				
Cash in bank - general checking	$	119,577		
Cash in bank - money market		88,059		
Cash in bank - Payroll tax deposits		20,181		
Cash in bank- Pain Webber		28,492		
Cash on hand		1,850		
Cash in bank- UBS FHLB		6,754		
Investments - State of California Local Agency Investment Fund		12,930,655		
Cash in bank - Sandhill Water Project Reserve Fund		47,914		
Cash in bank - Laurel Wood (Note 10)		23,885		
Total cash and cash equivalents (Note 4)	$	**13,267,367**		
Series 05 Revenue Certificates		517,858		
Investments		594,556		
Investments - deferred compensation (Note 5)		285,730		
Bond - Sandhill		120,000		
Accounts receivable (Note 6)		374,768		
Accounts receivable - Well Systems (Note 7)		45,066		
Accounts receivable - Delta Mutual (Note 17)		1,691		
Accounts receivable - Wells # 24 and 25		3,262		
Prepayments and Deposits		1,000		
Total current assets			$	15,211,298
Fixed Assets:				
Land	$	2,733,489		
Water treatment plant		23,086,925		
Transmission and distribution		4,712,522		
General plant		1,916,197		
Infrastructure		14,630,247		
Office Equipment		315,202		
Work in progress		358,183		
Total fixed assets	$	**47,752,765**		
Less: Accumulated depreciation		15,215,137		
Net fixed assets			$	32,537,628
Other Assets:				
Refinancing costs (Note 11)	$	1,658,477		
Series 05 Revenue Certificate Financing cost		153,544		1,812,021
TOTAL ASSETS			$	**49,560,946**

The accompanying notes are an integral part of this statement.

DIABLO WATER DISTRICT

STATEMENT OF NET ASSETS
JUNE 30, 2009

LIABILITIES		
Current Liabilities:		
Accounts payable	$ 306,147	
Developer's Admin/Engineering/Inspection deposits	39,468	
Payroll taxes payable	20,181	
Deposits - customers	215,185	
Substandard street deposit (Note 10)	23,885	
Main extension reimbursement payable (Note 9)	971,736	
Notes payable - current portion (Note 11)	1,007,300	
Maintenance Bonds	330,000	
Deferred compensation payable (Note 5)	285,730	
Delta Mutual Collections	2,483	
Total current liabilities		$ 3,202,115
Long-Term Liabilities:		
Well Bond		6,525,000
CCWA		9,797,645
TOTAL LIABILITIES		**$ 19,524,760**
Net Assets: (Note 12)		
Retained earnings	$ 25,186,058	
Appropriated equity (Facilities Reserve)	4,850,128	
TOTAL NET ASSETS		**$ 30,036,186**

The accompanying notes are an integral part of this statement.

DIABLO WATER DISTRICT

STATEMENT OF REVENUES AND EXPENSES
FOR THE YEAR ENDED JUNE 30, 2009

OPERATING EXPENSES			
Source of Supply:			
Purchase of water		$	2,624,629
Water Treatment:			
Randall-Bold expenses (Note16)			1,438,464
Maintenance:			
Salaries	$ 66,641		
Employee benefits	58,764		
Engineering	40,606		
Maintenance	48,484		
General operating	17,935		
Utilities	1,595		
Total maintenance			234,025
Transmission and Distribution:			
Salaries	$ 255,549		
Employee benefits	128,791		
Operating blending	48,763		
Maintenance	111,646		
Water samples	22,362		
Public Right of way relocate	40,000		
General operating	83,341		
Utilities	122,899		
Total transmission and distribution			813,351
Customer Accounts:			
Salaries	$ 560,393		
Employee benefits	305,294		
Office expense	17,540		
Collection expense	2,438		
Total customer accounts			885,665

The accompanying notes are an integral part of this statement.

DIABLO WATER DISTRICT

STATEMENT OF REVENUE AND EXPENSES
FOR THE YEAR ENDED JUNE 30, 2009

OPERATING EXPENSES (continued)			
Administration and General:			
Salaries	$ 142,422		
Employee benefits	64,944		
Office expense	172,149		
Consulting fees	19,240		
Insurance	70,818		
Rent	68,426		
Auditing and accounting	40,600		
Director's fees and expenses	7,671		
Legal	277,753		
Utilities	6,450		
Telephone	10,048		
Auto and travel	43,183		
Dues and subscriptions	14,131		
Training	10,028		
Miscellaneous	18,372		
Total administration and general		966,235	
Other Operating Expenses:			
Depreciation	$ 827,315		
Total other operating		827,315	
Total operating expenses:			$ 7,789,684
OPERATING INCOME			
Water Sales:			
Residential and business		$ 6,571,110	
Industrial		11,052	
Other		73,444	
Total water sales			6,655,606
Net operating income (loss)			$ (1,134,078)

The accompanying notes are an integral part of this statement.

DIABLO WATER DISTRICT

STATEMENT OF REVENUE AND EXPENSES
FOR THE YEAR ENDED JUNE 30, 2009

NON-OPERATING EXPENSES AND INCOME			
Expenses:			
Interest on Contra Costa Water District (Note 11)	$ 563,029		
Interest on well bonds	260,138		
		$ 823,167	
Income:			
Interest	$ 61,564		
LAIF interest income	254,916		
Brentwood overlap fees (Note 15)	30,145		
Sandhill receipts	15,549		
Administration and inspection reimbursements	13,963		
County well system labor, overhead and vehicle reimbursement (Note 7)	53,178		
Delta Mutual labor, overhead and vehicle reimbursement (Note 17)	13,818		
Rental income	53,518		
Other miscellaneous	481,683		
Total non-operating income		978,334	
Net non-operating income (loss)			155,167
Net income (loss)			$ (978,911)

The accompanying notes are an integral part of this statement.

DIABLO WATER DISTRICT

STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2009

(Note 12)

	Retained Earnings	Appropriated Retained Earnings	Totals
Beginning balances - July 1, 2008	$ 25,723,238	$ 6,780,810	$ 32,504,048
Net income (loss) after contributions	(978,911)		(978,911)
Prior year adjustments	(1,323,268)	(165,683)	(1,488,951)
Payments to Contra Costa Water District (note principal and interest) from facilities reserve (Note 11)	613,706	(613,706)	
Investments with over 90 days maturity - 50%	(297,278)	297,278	
Facilities reserve costs:			
Ground water exploration	4,443	(4,443)	
Engineering	3,309	(3,309)	
Publications	6,880	(6,880)	
Legal	207,418	(207,418)	
Glen Park Well construction	9,330	(9,330)	
New well investigation	150,339	(150,339)	
Reservoir 3 design and construction	1,294,349	(1,294,349)	
Facilities reserve income	(211,948)	211,948	
Sandhill receipts	(15,549)	15,549	
Ending balances - June 30, 2009	$ 25,186,058	$ 4,850,128	$ 30,036,186

The accompanying notes are an integral part of this statement.

DIABLO WATER DISTRICT

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2009

CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash receipts from customers			$	6,655,606
Cash payments:				
To suppliers	$	4,063,093		
For operating expenses		2,899,276		
Total cash payments				6,962,369
Net cash flows provided by operating activities			$	(306,763)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:				
Other revenue	$	978,334		
Other expenses		(823,167)		
Net cash provided by non-capital financing activities				155,167
CASH FLOWS FROM INVESTING ACTIVITIES:				
Capital expenditures		(1,902,704)		
Investments - Well Series 05		165,683		
Investments		1,100,000		
Amortization of CCWA Bonds		105,968		
Other Investing Activities		42,264		
Facilities reserve income		211,948		
Net cash provided by investing activities				(276,841)
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:				
Principal payments on note payable - Well Bonds	$	(200,000)		
Principal payments on note payable - Contra Costa Water District		(770,350)		
Net cash provided by capital financing activities				(970,350)
Net decrease in cash and cash equivalents			$	(1,398,787)
Cash and cash equivalents at beginning of year				14,666,154
Cash and cash equivalents at end of year			**$**	**13,267,367**

The accompanying notes are an integral part of this statement.

DIABLO WATER DISTRICT

CASH AND INVESTMENTS AVAILABLE FOR OPERATIONS
FOR THE YEAR ENDED JUNE 30, 2009

CASH AND INVESTMENTS - JUNE 30, 2009

Cash in bank - general checking	$	119,577	
Cash in bank - payroll tax deposit		20,181	
Cash in bank - money market		88,059	
Cash in bank- Pain Webber		28,492	
Cash on hand		1,850	
Cash in bank- UBS		6,754	
Investments - State of California Local Agency Investment Fund		12,930,655	
Investments - Greater than 90 days maturity		594,556	
Series 05 Revenue Certificates		517,858	
Cash in bank - Sandhill Water Project Reserve Fund		47,914	
Cash in bank - Laurel Wood (Note 10)		23,885	
Total cash and Investments	$	14,379,781	
Restricted:			
Facilities reserve		(4,850,128)	
Designated:			
Main extension reimbursement		(971,736)	
Deposit - customers		(215,185)	
Substandard street deposits		(23,885)	
Developers' deposits		(39,468)	
Delta Mutual Collections		(2,483)	
Deferred compensation payable (Note 5)		(285,730)	
Series 05 Revenue Certificates		(517,858)	
Maintenance bonds		(330,000)	
Cash and Investments available for operations			$ **7,143,308**

The accompanying notes are an integral part of this statement.

NOTE 1 GENERAL ORGANIZATION AND DESCRIPTION OF THE DISTRICT

The Diablo Water District was organized and exists under, and by virtue of, the County Water District Law of the State of California, Division 12 of the Water Code. (Sections 30000-33901)

The District is governed by a Board of Directors consisting of five members, one of whom is annually elected President. The General Manager - Secretary is appointed by the Board pursuant to Section 30540 of the Water Code.

Diablo Water District changed its name from Oakley Water District on May 1, 1993.

NOTE 2 ACCOUNTING POLICIES

Diablo Water District uses the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

Depreciation has been computed on the straight-line method over the estimated useful lives of the assets. Depreciation expense has been reflected as an operating expense.

NOTE 3 BASIS OF PRESENTATION

The accompanying financial statements of the District have been prepared in conformity with United States General Accepted Accounting Principles, as prescribed by the Government Accounting Standards Board (GASB). In June 1999 GASB issued Statement 34 title "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments". For Diablo Water District, implementation of the Statement requirements became effective with the fiscal year ended June 30, 2004. The changes in presentation are discussed below.

Management's Discussion and Analysis: GASB Statement 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the District's financial activities. This analysis is similar to the analysis provided in the annual reports of private-sector organizations.

Financial Statements: GASB Statement 34 defines major funds and requires that major governmental and business-type funds be identified and presented separately in the fund financial statements. All other funds, called non-major funds are combined and reported in a single column, regardless of their fund type.

Diablo Water District maintains only one fund and it is reported as a proprietary fund.

Infrastructure: GASB Statement 34 requires disclosure of infrastructure items under several reporting options. Infrastructure is defined as capital assets of a relatively permanent nature that have longer estimated lives (50 or more years) than ordinary capital assets. Infrastructure items are to be reported at historical costs (purchase price). Management may elect to use either a basic approach, depreciating the asset over its expected life, or a modified approach, which requires establishing an asset management system and making a condition assessment every three years.

The District elected to use the basic approach. Under the basic approach all new infrastructure, including improvements that increase capacity or efficiency or lengthen the life of the asset, is booked, its useful life is estimated and the asset is depreciated over its useful life.

NOTE 4 CASH AND INVESTMENTS

District policy requires that all cash deposits be insured by the Federal Deposit Insurance Corporation or by the federal Savings and Loan Insurance Corporation, or be collateralized by government securities. District policy also allows investments in securities authorized by Section 53601 or 53635 of the Government Code.

Under the California Government Code, banks and savings and loan associations are required to secure deposits made by state or local government units by pledging government securities as collateral. The market value of the pledged securities must equal at least 110% of the total amount deposited by the public agencies.

All cash investments held by the financial institutions are fully insured or collateralized.

Investments are carried at fair market value.

NOTE 5 DEFERRED COMPENSATION

The District offers its employees a deferred compensation plan created in accordance with Section 457 of the Internal Revenue Code and Section 53213 of the Government Code of the State of California.

All amounts of compensation deferred under the plan, all property and rights purchased with such amounts, and all income attributable to such amounts, property, or rights represent a general obligation of the District. Accordingly, they are reflected as part of the District's assets on its financial statements. The corresponding obligation is reflected in the District's liabilities.

The deferred compensation is invested in various interest-bearing accounts. Under the terms of the deferred compensation plan, the entire amount of $285,730 is unencumbered and available for payments to which participants may be entitled as a result of termination of services, age 65, death, or unforeseeable emergency.

NOTE 6 ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2009 totaled $374,768. Accounts over sixty days were immaterial. The Board approved turning accounts over to a collection agency at the discretion of the Secretary-Manager. Accounts are written off when approved by the Board of Directors.

NOTE 7 COUNTY WELL – M28

Effective July 1, 1994, the District entered into a service agreement with Contra Costa County to operate and maintain four well-water systems, known as Knightsen, Beacon West, Willow Park Marina and Willow Mobile Home Park. On July 1, 2003 the County donated three of the wells to the District and kept Willow Home Park. The donated wells, with an estimated value of $3,800,000 are capitalized as infrastructure and as capital contributions in Facilities Reserve.

The County reimburses the District for the actual cost of providing services for Willow Mobile Home Park, including materials, contractors, personnel costs (actual cost of salary and benefits), vehicle costs and overhead. For the year ended June 30, 2009 the reimbursement received or receivable for labor, overhead, vehicle and direct costs totaled $78,279. A receivable has been recorded for $18,323 for unreimbursed expenses, as of June 30, 2009, all of which has been billed to Contra Costa County as of the date of the report. After actual expenses of $57,157, the net income realized by the District for this period is $21,122.

NOTE 8 FIXED ASSETS

All fixed assets are recorded at their original cost. The District capitalizes all assets with an original cost of at least $5,000 and a useful life of at least three years. The cost of additions to utility plant and major replacements of property are capitalized. Capitalized costs include material, direct labor, transportation and such direct items as engineering, supervision, employee fringe benefits and interest on net borrowed funds related to plant under construction. Contributed property is recorded at estimated fair market value at the date of donation. Payments received for connection fees are recorded as contributions in aid for construction. Repairs, maintenance and minor replacements of property are expensed.

The purpose of depreciation is to spread the cost of capital assets equitably among all customers over the life of these assets, so that each customer's bill includes a pro rata share of the cost of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of depreciable capital assets. Accumulated depreciation at June 30, 2009 represents the estimated depreciation on all fixed assets since the District began operations, to the date of this report. Fixed assets are classified to conform to the State Controller's uniform accounting for all water districts. Effective July 1, 2003, the District records additions to infrastructure in compliance with GASB-34.

Depreciation of all capital assets in service, excluding land, is charged as an expense against operations each year and the total amount of depreciation taken over the years, accumulated depreciation, is reported on the Statement of Net Assets as a reduction in the book value of the capital assets. Capital assets are depreciated using the straight line method of depreciation, where the cost of the asset is divided by its useful life in years and the result is charged to expense each year until the asset is fully depreciated. The District has assigned the useful lives listed below to capital assets:

	Years
Water Treatment Plant	5 – 50
General Plant	5 – 50
Transmission and Distribution	5 – 50
Infrastructure	25 – 75

	Cost	Accumulated Depreciation
Work-in-progress	$ 358,183	$ 0
Land	2,733,489	0
Randall-Bold plant	23,086,925	10,719,338
Corporation yard and pumping	315,202	174,172
Transmission and distribution	4,712,522	2,243,917
General plant	1,916,197	1,113,907
Infrastructure	14,630,247	963,803
Totals	**$ 47,752,765**	**$ 15,215,137**

NOTE 9 MAIN EXTENSION REIMBURSEMENT PAYABLE

Regulation #3 sets forth the connection charges and reimbursements for certain main extensions. In general terms, this regulation requires the main extender to pay to the District a facilities reserve charge and a main extension reimbursement assessment and to advance to the District its costs of materials, labor, engineering and administration. The District reimburses eligible applicants over a ten year period without interest. The reimbursement is paid in July of each year following acceptance of the facilities by the District. The maximum amount of reimbursement cannot exceed ten percent of the originally established potential reimbursement amount. If the ten percent liability is under $5,000, then $5,000 will be paid annually until the liability is paid off. This policy is subject to the availability of sufficient funds.

NOTE 10 SUBSTANDARD STREET DEPOSIT LIABILITY

Developers are required to deposit with the District the estimated cost of relocating pipelines in substandard streets. The District has deposited $10,957 received in 1989 from the developers of Laurel Woods in an interest-bearing account. If the costs exceed the amount on deposit the developer is required to reimburse the District. If the costs are less than the amount on deposit the District shall refund the excess to the Developer. The amount on deposit, together with accrued interest, was $23,885 as of June 30, 2009.

NOTE 11 NOTES PAYABLE

On October 29, 1982, Diablo Water District entered into a contract between the State of California Department of Water Resources for a loan and grant under the California Safe Drinking Water Bond Law of 1976. The amount of the loan, including 3 percent administrative fee, was $257,500, payable over 35 years at a rate of 8.1%. The note has been refinanced through the California Statewide Communities Development Authority at 7.125% with semiannual payments of $10,471.34. Final payment is due December 1, 2019. Diablo Water District has complied with all provisions of the Loan Agreement and the indenture. The remaining balance of the note was paid off in full by the District in June 2005.

On July 2, 1984, serial bonds representing unpaid assessments of the Oakley Water District Assessment District No. 1983-1, Sandhill Project were issued in the amount of $203,000. The bonds bear interest at a rate of 10% per annum and are registered to Diablo Water District.

Contra Costa Water District - On May 24, 1989, the District signed a Joint Exercise of Power Agreement with the Contra Costa Water District for a joint water treatment plant. The Diablo Water District's share of the capital costs of the plant, which was completed on July 7, 1992, was $16,454,516, plus construction period interest of $2,106,570. The District's 35.5% share of the construction cost will be paid in semiannual payments over a period of 30 years to the Contra Costa Water District, which will pay principal and interest on revenue bonds issued by the Contra Costa Water Authority to finance the project. The original bond issue was called and reissued in 1993, resulting in Diablo Water District's share of amortizable refinancing costs of $2,824,259. The remaining unamortized balance at June 30, 2006 was $1,764,415. These costs will be expensed as bonds mature and are included in interest expense. A portion of the payments will come from Facilities Reserve revenues and the balance will come from operating funds.

During the period beginning July 1, 2008 and ending June 30, 2009 the District made payments on its obligation for the Contra Costa Water District bonds as shown below:

	General Fund	Facilities Reserve Fund	Total
Principal	$ 385,175	$ 385,175	$ 770,350
Interest	228,531	228,531	457,062
Total Payments	**$ 613,706**	**$ 613,706**	**$ 1,227,412**

NOTE 11 NOTES PAYABLE (continued)

The payments on principal are reflected as a reduction on the balance sheet on the accounts labeled "notes payable". The interest portion is reported in the Statement of Revenue and Expenses under the account labeled "interest on Contra Costa Water District Note". The amortization of the refinancing costs (a non-cash expense) incurred in the 1993 re-issuance of the bonds is shown as a separate line item under "non-operating expenses".

2005 Series Certificate Water Revenue Bonds - On February 23, 2005, the District obtained $7,500,000 of Series 2005 Revenue bonds. These bonds will be used to finance improvements to the District's water system. The debt service schedule in the agreement calls for semi-annual payments beginning in July 2006 and ending July 2030. The contract calls for interest rates starting at 3.75% and ending at 4.4%.

Current & Long Term Liabilities on Notes Payable	Current	Long-term	Total
Water Revenue Certificates Series 05	$ 205,000	$ 6,525,000	$ 6,730,000
Contra Costa Water District	802,300	9,797,645	10,599,945
Total	**$ 1,007,300**	**$ 16,322,645**	**$ 17,329,945**

The following are maturities of long-term debt for the next five fiscal years:

6/30/10	$ 1,007,300
6/30/11	1,084,750
6/30/12	1,125,250
6/30/13	1,172,525
6/30/14	1,219,800
Total	**$ 5,609,625**

NOTE 12 FUND EQUITY

The Board of Directors has restricted all facilities reserve charges from new connections to the District's water system as well as the interest earned on the facilities reserve fund to those uses of water connection fees and capacity charges that are authorized by law. Per Regulation 3, these uses may include, but are not limited to, "payment of the costs of planning, designing, and construction facilities that increase the District's water supply or the capacity of its water treatment, storage and distribution system; for payment of principal and interest on indebtedness incurred for said facilities; and for payment expenses of enlarging or relocating facilities to accommodate growth of the District." The total amount of cash restricted for facilities reserve fund expenditures is shown as Appropriated Retained Earnings.

NOTE 13 OPERATING LEASES

Total future minimum lease payments for the next four fiscal years are as follows:

6/30/2010		37,848
6/30/2011		37,848
6/30/2012		37,848
6/30/2013		37,848
Total	**$**	**151,392**

NOTE 14 POST RETIREMENT HEALTH CARE BENEFITS

Full-time employees who retire from the District after at least ten years of service are eligible to receive health care benefits covering themselves and any qualified family members. Once the retiree reaches age 65 family members are no longer covered under the Health Maintenance Organization (HMO) and the Preferred Provider Organization (PPO) and a percentage of the health care benefits for said retirees is covered based on years of service. The District pays 100% of the premiums for both retiree and spouse for all retirees under the age of 65. After the age of 65 the District pays a percentage of the premiums based on the years of service of the retiree. However the District only covers the retiree, not the spouse. If the retiree elects to choose an alternative insurance, the District will pay for the lesser of the insurance costs. Expenditures for post-retirement health care benefits for the fiscal year ended June 30, 2009 totaled $50,743.

NOTE 15 BRENTWOOD PUMP STATION (BWPS)

The District entered into an agreement with the City of Brentwood on September 18, 1996 for construction of a water main in Empire Avenue connecting the City's distribution system to the District's. The purpose of the agreement was to enable the District to wheel water treated for potability at the Randall-Bold Water Treatment Plant to the City of Brentwood.

Construction costs were borne by the City of Brentwood and the project was completed in October of 1997. The District reads the meter on the last working day of each month and delivers a copy of the reading to the City of Brentwood. For the year ended June 30, 2009 income received or receivable from Brentwood was $30,145. This amount is included in the Brentwood Overlap Fees.

Under the terms of the original agreement the District is not obligated to transport water after December 31, 2003. Commencing the same date, the District is obligated to pay 90% of Brentwood's construction costs up to a maximum of $585,000 in ten equal annual installments without interest. These provisions are subject to future amendments as agreed by the District and City of Brentwood. At this point in time it appears that water delivery will be needed beyond the year 2003 and the time to commence repayments will likewise be extended. Accordingly, the $585,000 obligation, while possible, appears sufficiently remote to preclude booking it at this time as a liability, in accordance with the contingent liability disclosure guidelines under SFAS No. 5.

NOTE 15 BRENTWOOD PUMP STATION (BWPS) (continued)

The agreement was amended on October 25, 2000. The service areas located south of Neroly Road and Delta Road ("overlap areas") will be serviced by Brentwood. The ten annual installments are reduced to six with payments starting in 2008 through 2013. At January 1, 2009 the District paid the City of Brentwood $58,500. For connections in the overlap areas, the City shall pay a connection fee subject to annual increases per the Construction Cost Index.

NOTE 16 RANDALL-BOLD EXPENSES AND RECONCILIATION

The District's statement of revenue and expenses shows actual expenditures of $1,438,464 for the Randall-Bold Water Treatment Plant (RBWTP). Each year the Contra Costa Water District (CCWD) issues a reconciliation statement for the District's actual share of RBWTP costs, which may result in either a refund or a liability. The reconciliation statement is received after the completion of the audit report, and accordingly the adjustment figure is for the prior year.

NOTE 17 DELTA MUTUAL AGREEMENT

Effective October 15, 1999, the District entered into a service agreement with Delta Mutual Water Company. The agreement provides for the performance of services by the District required to continue the operation and maintenance of Delta Mutual's water treatment and distribution system. The District bills approximately 120 customers of Delta Mutual semiannually. Upon receipt of payment the District transmits the proceeds to Delta Mutual. In addition to handling collection, the District bills Delta Mutual monthly for repairs, maintenance, testing, inspection and actual costs, including materials, contractors, personnel and vehicle costs and overhead in accordance with the Hour Rates Schedule contained in the agreement.

For the year ended June 30, 2009, the District collected $34,043 and transmitted $31,560 to Delta Mutual. The balance of $2,483 is remaining to be transmitted. The District billed Delta Mutual $13,818 for expenses and overhead for the year ended June 30, 2009. There is a receivable of $1,691 for unreimbursed expenses. Net income for the year ended June 30, 2009 is $8,127.

NOTE 18 PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS)

During the fiscal year ending June 30, 2006 the District changed its retirement plan from Contra Costa County Employees Retirement Association (CCCERA) to California Public Employees Retirement System (CALPERS). All District Employees are eligible to participate in pension plans offered by CALPERS, an agent multiple employer defines benefit pension plan which acts as a common investment and administrative agent for its participating member employees. CALPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. The District's employees participate in the Miscellaneous Employee Plan. Benefit provisions under the Plan are established by State statue and District resolution. Benefits are based on years of credited service, equal to one year of full time employment. Funding contributions for the Plan is determined annually on an actuarial basis as of June 30 by CALPERS; the District must contribute these amounts. The Plan's provisions and benefits in effect at June 30, 2009 are summarized as follows:

	Miscellaneous
Benefit vesting schedule	5 years service
Benefit payments	Monthly for life
Retirement age (Diablo Water District)	55
Retirement age (CalPERS)	50 – 55
Monthly benefits, as a % of annual salary	2% - 2.7%
Required employee contribution rates	8%
Required employer contribution rates	25.486%

NOTE 18 PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS (continued)

Contributions necessary to fund PERS on an actuarial basis are determined by CALPERS and its Board of Administration. CALPERS determines contribution requirements using a modification of the Entry Age Normal Method. Under this method, the District's total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level percentage of the related total payroll cost. Normal benefit cost under this method is the level amount the District must pay annually to fund employee's projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities. The actuarial assumptions used to compute contribution requirements are also used to compute the actuarially accrued liability. The District uses the actuarially determined percentages of payroll to calculate and pay contributions to CALPERS. This results in no net pension obligations or unpaid contributions. Annual Pension Costs, representing the payment of all contributions required by CALPERS, for the years ended June 30, 2008 and 2007 were $218,824 and $223,860, respectively. CALPERS uses the market related value method of valuing the Plan's assets. An investment rate of return of 7.75% is assumed, including inflation at 3%. Annual salary increases are assumed to vary by duration of service. Changes in liability due to plan amendments, changes in actuarial assumptions, or changes on actuarial methods are amortized as a level percentage of payroll on a closed basis over twenty years. Investment gains and losses are amortized over a rolling thirty year period. Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Employees are members of the Public Employees Retirement System (PERS).

DIABLO WATER DISTRICT

COMMENTS

OPERATIONS

A comparative schedule of net income and facilities reserve income for 2008-2009 and 2007-2008 follows:

	2008-2009	2007-2008	Difference
Water sales	$ 6,655,606	$ 7,513,903	$ (858,297)
Operating expenses	(6,962,369)	(7,040,413)	78,044
Depreciation	(827,315)	(1,005,638)	178,323
Net operating income	$ (1,134,078)	$ (532,148)	$ (601,930)
Interest and other income	962,785	1,369,948	(407,163)
Amortization of Issuance costs	(105,968)	(464,831)	358,863
Interest on notes	(717,199)	(648,806)	(68,393)
Net income	$ (994,460)	$ (275,837)	$ (718,623)
Facilities reserve income	211,948	3,422,738	(3,210,790)
Totals	**$ (782,512)**	**$ 3,146,901**	**$ (3,929,413)**

Comparative schedules of revenue and cubic feet of water consumed are as follows:

	2008-2009	2007-2008	Difference
Water Revenue:			
Residential & business	$ 6,571,110	$ 7,320,939	$ (749,829)
Industrial	11,052	10,863	189
Other	73,444	182,101	(108,657)
Total revenue	**$ 6,655,606**	**$ 7,513,903**	**$ (858,297)**

DIABLO WATER DISTRICT

COMMENTS

RISK MANAGEMENT The District has purchased commercial insurance for property and liability in the insurance marketplace through East Bay Insurance Agency, the District's selected insurance broker/ consultant. During the fiscal year which ended June 30, 2009 the District paid $70,818 for current year coverage.

The District is self-insured for workers' compensation through the ACWA/Joint Powers Insurance Authority. During the fiscal year which is ended June 30, 2009 the District paid $25,667 for current year coverage.

Liabilities under these programs are accrued and charged to expense when the claims are reasonably determinable and when the existence of the District's liability is probable.

The following types of loss risks are covered by the commercial insurance policies as follows:

Type of Coverage	Limits	Deductibles
General Liability	$1,000,000	None
Automobile Liability	1,000,000	$500
Excess Public Entity Liability	10,000,000	None
Worker's Compensation	2,000,000	None

INSURANCE COVERAGE

The following is a schedule of the District's insurance coverage at June 30, 2009:

	Amount	Aggregate
Liability Coverage (no deductible):		
Bodily injury and property damage	$ 11,000,000	$ 13,000,000
Personal injury and advertising injury	11,000,000	13,000,000
Employment-Related practices injury	11,000,000	13,000,000
Professional liability	11,000,000	13,000,000
Wrongful acts	11,000,000	13,000,000
Damage to premises rented to you	1,000,000	
Uninsured motorist liability	1,000,000	
Medical payment	5,000	

DIABLO WATER DISTRICT

COMMENTS

Property Coverage:

Up to $11,000,000 per occurrence for the following covered property ($500 deductible):

Aboveground piping	Outdoor property including signs
Accounts receivable	Owned and nonowned mobile equipment
Ammonia contamination	Owned and rented and hired vehicles
Commandeered property	Paved surfaces
Communications equipment	Personal vehicles of insureds
Computer equipment and electronic media	Preservation of property
Debris removal	Property in course of construction
Demolition and increased cost of construction	Real and personal property
Emergency service portable equipment	Rental value
Extra expense/expediting expense	Utility interruption
Fine arts	Vacant buildings
Loss of income	Valuable papers and records
	Vehicle glass repair and replacement

Up to the respective sublimit for the following covered property and coverage extensions:

Pollutant cleanup and removal	$	250,000
Personal effects of insureds		50,000
Personal effects of patients and fire victims		50,000
Recertification of equipment and vehicles		50,000
Trees, shrubs and landscape planting		50,000
Fire department service charge		25,000
Towing and transportation expenses		5,000
Arson and crime reward		10,000

Crime coverage:

Employee dishonesty	$	250,000
Forgery or alteration		250,000
Computer fraud		100,000
Theft, disappearance and destruction		250,000

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APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (this "Disclosure Certificate") is executed and delivered by the Diablo Water District (the "District") in connection with the execution and delivery of $4,200,000 aggregate principal amount of 2010 Water Revenue Certificates of Participation (the "Certificates"). The Certificates evidence the direct, undivided fractional interests of the owners thereof in installment payments to be made by the District under an Installment Sale Agreement dated as of May 1, 2010 (the "Installment Sale Agreement") between the Public Property Financing Corporation of California (the "Corporation") as seller and the District as purchaser. The Certificates have been executed and delivered under a Trust Agreement dated as of May 1, 2010 (the "Trust Agreement") among the Corporation, the District and Union Bank, N.A., as trustee (the "Trustee"). The District covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District for the benefit of the holders and beneficial owners of the Certificates and in order to assist the Participating Underwriters in complying with Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended.

Section 2. Definitions. In addition to the definitions set forth above and in the Trust Agreement, 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*" means any Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4.

"*Annual Report Date*" means the date that is nine months after the end of the District's fiscal year (currently March 31 based on the District's fiscal year end of June 30).

"*Dissemination Agent*" any Dissemination Agent designated in writing by the District and which has filed with the District a written acceptance of such designation. As of the date of this Certificate, the District has not appointed an independent Dissemination Agent.

"*Listed Events*" means any of the events listed in Section 5(a).

"*MSRB*" means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule.

"*Official Statement*" means the final official statement executed by the District in connection with the issuance of the Bonds.

"*Participating Underwriter*" means Stone & Youngberg LLC, as the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"*Rule*" means 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 District shall, or shall cause the Dissemination Agent to, not later than the Annual Report Date, commencing March 31, 2011 with the report for the 2009-10 fiscal year, provide to the MSRB, in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4. Not later than 15 Business Days prior to the Annual Report Date, the District shall provide the Annual Report to the Dissemination Agent (if other than the District). If by 15 Business Days prior to the Annual Report Date the Dissemination Agent (if other than the District) has not received a copy of the Annual Report, the Dissemination Agent shall contact the District to determine if the District is in compliance with the previous sentence. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4; provided that the audited financial statements of the District may be submitted separately from the balance of the Annual Report, and later than the Annual Report Date, if not available by that date. If the District's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) If the District does not provide (or cause the Dissemination Agent to provide) an Annual Report by the Annual Report Date, the District shall provide (or cause the Dissemination Agent to provide) to the MSRB, in an electronic format as prescribed by the MSRB, a notice in substantially the form attached as Exhibit A, with a copy to the Participating Underwriter.

(c) With respect to each Annual Report, the Dissemination Agent shall:

(i) determine each year prior to the Annual Report Date the then-applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports; and

(ii) if the Dissemination Agent is other than the District, file a report with the District, certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, and stating the date it was provided.

Section 4. Content of Annual Reports. The District's Annual Report shall contain or incorporate by reference the following:

(a) Audited Financial Statements prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the District's audited financial statements are not available by the time the Annual Report is required to be filed under Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) To the extent not contained in the audited financial statements filed under the preceding clause (a), the Annual Report shall contain information showing the following:

(i) if the District has revised its schedule of water rates and charges in the preceding fiscal year, a summary of the schedule in effect as of the close of the preceding fiscal year, by classification of customer;

(ii) the amount of connection charges (facilities reserve charges) received by the District in the preceding fiscal year;

(iii) total Net Revenues received by the District during the preceding fiscal year and the amount by which such Net Revenues provide coverage for the payments of debt service coming due in such fiscal year with respect to the Installment Payments and any other Parity Debt; and

(iv) if any customer whose total billings in the preceding fiscal year represent 10% or more the Gross Revenues of the Water Enterprise, information showing (1) the total amount of Gross Revenues derived from such customer and (2) the percent of total Gross Revenues represented by such customer for such fiscal year.

(c) In addition to any of the information expressly required to be provided under paragraphs (a) and (b) of this Section, the District shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which are available to the public on the MSRB's Internet web site or filed with the Securities and Exchange Commission. The District shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

(a) Under the provisions of this Section 5, the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Certificates, if material:

(1) Principal and interest payment delinquencies.

(2) Non-payment related defaults.

(3) Unscheduled draws on debt service reserves reflecting financial difficulties.

(4) Unscheduled draws on credit enhancements reflecting financial difficulties.

(5) Substitution of credit or liquidity providers, or their failure to perform.

(6) Adverse tax opinions or events affecting the tax-exempt status of the security.

(7) Modifications to rights of security holders.

(8) Contingent or unscheduled bond calls.

(9) Defeasances.

(10) Release, substitution, or sale of property securing repayment of the securities.

(11) Rating changes.

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

(c) If the District determines that knowledge of the occurrence of a Listed Event would be material under applicable Federal securities law, the District shall, or shall cause the Dissemination Agent to, promptly file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB, with a copy to the Participating Underwriter. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) 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. Identifying Information for Filings with the MSRB. All documents provided to the MSRB under the Disclosure Certificate shall be accompanied by identifying information as prescribed by the MSRB.

Section 7. Termination of Reporting Obligation. The District's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the District shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 8. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), 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 type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by holders of the Bonds in the manner provided in the Trust Agreement for amendments to the Trust Agreement with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first annual financial information filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion

of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the District to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be filed in the same manner as for a Listed Event under Section 5(c).

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate, the Participating Underwriter or 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 District to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Trust Agreement, and the sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 12. Notices. Any notice or communications to be among any of the parties to this Disclosure Certificate may be given as follows:

If to the District:	Diablo Water District 2107 Main Street P.O. Box 127 Oakley, California 94561-3303 Attention: General Manager Fax: (925) 625-0814
If to the Participating Underwriter:	Stone & Youngberg LLC One Ferry Building, Suite 275 San Francisco, California 94111 Fax: (415) 445-2395

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

Section 13. Beneficiaries. This Disclosure Certificate inures solely to the benefit of the District, the Dissemination Agent, the Participating Underwriters and holders and beneficial owners from time to time of the Certificates, and shall create no rights in any other person or entity.

Date: May 6, 2010

DIABLO WATER DISTRICT

By _____
General Manager

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Diablo Water District

Name of Issue: $4,200,000 2010 Water Revenue Certificates of Participation

Date of Issuance: May 6, 2010

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report with respect to the above-named Bonds as required by Section 9.05 of the Trust Agreement dated as of May 1, 2010, among the District, the Public Property Financing Corporation of California and Union Bank of California, N.A., as trustee. The District anticipates that the Annual Report will be filed by _____.

Date: **DIABLO WATER DISTRICT**

By _____
Name:
Title:

APPENDIX E

FORM OF BOND COUNSEL OPINION

May 6, 2010

Board of Directors
Diablo Water District
2107 Main St.
Oakley, California 94561

OPINION: $4,200,000 2010 Water Revenue Certificates of Participation Evidencing the Direct, Undivided Fractional Interests of the Owners Thereof in Installment Payments to be Made by the Diablo Water District as the Purchase Price of Certain Property Under an Installment Sale Agreement with the Public Property Financing Corporation of California

Members of the Board of Directors:

We have acted as special counsel in connection with the delivery by the Diablo Water District, California (the "District"), of the Installment Sale Agreement dated as of May 1, 2010 (the "Installment Sale Agreement") between the Public Property Financing Corporation of California (the "Corporation") as seller and the District as purchaser. Under the Trust Agreement dated as of May 1, 2010 (the "Trust Agreement") among the District, the Corporation and Union Bank, N.A., as trustee thereunder (the "Trustee"), the Trustee has executed and delivered $4,200,000 aggregate principal amount of 2010 Water Revenue Certificates of Participation (the "Certificates") evidencing the direct, undivided fractional interests of the owners thereof in installment payments to be made by the District under the Installment Sale Agreement (the "Installment Payments") which have been assigned by the Corporation to the Trustee under the Trust Agreement. We have examined the law and such certified proceedings and other papers as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the District contained in the Installment Sale Agreement and the Trust Agreement, and in certified proceedings and other certifications of public officials and others furnished to us, without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion, under existing law, as follows:

1. The District is a county water district duly organized and existing under the County Water District Law of the State of California, constituting Division 12 of the Water Code of the

State of California, and has full power to enter into the Installment Sale Agreement and the Trust Agreement and to perform the agreements on its part contained therein.

2. The Installment Sale Agreement and the Trust Agreement have been duly approved by the District and constitute valid and binding obligations of the District enforceable against the District in accordance with their respective terms.

3. The Certificates have been validly executed and delivered by the Trustee under the Trust Agreement and, by virtue of the assignment made under the Trust Agreement, the owners of the Certificates are entitled to the benefits of the Installment Sale Agreement.

4. The portion of the Installment Payments designated as and comprising interest and received by the owners of the Certificates is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. The Installment Sale Agreement is a "qualified tax-exempt obligation" within the meaning of Section 265(b)(3) of the Internal Revenue Code of 1986 (the "Tax Code") and, in the case of certain financial institutions (within the meaning of Section 265(b)(5) of the Tax Code), a deduction is allowed for 80% of that portion of such financial institutions' interest expense allocable to interest payable with respect to the Certificates.

The opinions set forth in the preceding paragraph are subject to the condition that the District comply with all requirements of the Tax Code that must be satisfied subsequent to the delivery of the Installment Sale Agreement in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The District has covenanted in the Installment Sale Agreement and the Trust Agreement and other instruments relating to the Certificates to comply with each of such requirements. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of delivery of the Installment Sale Agreement. We express no opinion regarding other federal tax consequences arising with respect to the Installment Sale Agreement and the Certificates.

5. The portion of the Installment Payments designated as and comprising interest and received by the owners of the Certificates is exempt from personal income taxation imposed by the State of California.

The rights of the owners of the Certificates and the enforceability of the Installment Sale Agreement and the Trust Agreement may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and may also be subject to the exercise of judicial discretion in accordance with principles of equity or otherwise in appropriate cases.

Respectfully submitted,

Jones Hall,
A Professional Law Corporation

APPENDIX F

BOOK-ENTRY PROVISIONS

*The following description of the Depository Trust Company ("**DTC**"), the procedures and record keeping with respect to beneficial ownership interests in the Certificates, payment of principal, interest and other payments on the Certificates to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Certificates and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.*

*Neither the issuer of the Certificates (the "**Issuer**") nor the trustee, fiscal agent or paying agent appointed with respect to the Certificates (the "**Agent**") take any responsibility for the information contained in this Appendix.*

No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Certificates, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Certificates, or (c) prepayment or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Certificates, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

1. The Depository Trust Company ("**DTC**"), New York, NY, will act as securities depository for the securities (the "**Certificates**"). The Certificates 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 the Certificates, in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds $500 million, one certificate will be issued with respect to each $500 million of principal amount and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. DTC, the world's largest 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 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instrument 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, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("**Indirect Participants**"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

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

4. To facilitate subsequent transfers, all Certificates 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 Certificates with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such Certificates are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Certificates may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Certificates, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Certificates may wish to ascertain that the nominee holding the Certificates 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 the notices be provided directly to them.

6. Prepayment notices shall be sent to DTC. If less than all of the Certificates within an issue are being prepaid, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be prepaid.

7. Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Certificates unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer 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 Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Prepayment proceeds, distributions, and interest payments on the Certificates 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 Issuer or Agent on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of prepayment 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 Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

11. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.