

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

\$91,670,000

**CONTRA COSTA WATER DISTRICT
(CONTRA COSTA COUNTY, CALIFORNIA)
WATER REVENUE REFUNDING BONDS, SERIES R**

Dated: Date of Delivery

Due: October 1, as shown on the inside cover page

This cover page contains certain information for general reference only. It is not intended to be a summary of the security or terms of this issue. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision. Capitalized terms used on this cover page not otherwise defined shall have the meanings set forth herein.

The Contra Costa Water District Water Revenue Refunding Bonds, Series R (the "Series R Bonds") are being issued by the Contra Costa Water District (the "District") to provide funds, together with other available moneys, for the refunding of all of the District's outstanding Water Revenue Refunding Bonds, Series M, all of the District's outstanding Water Revenue Notes, Series A, maturing on October 1, 2013, and all of the District's outstanding State Revolving Fund loans, and to pay the costs of issuance of the Series R Bonds, as each is more fully described herein. See "PLAN OF REFUNDING" herein.

Interest on the Series R Bonds is payable on October 1, 2013, and semi-annually thereafter on April 1 and October 1 of each year. Principal is payable on the dates set forth on the inside cover of this Official Statement. The Series R Bonds are being issued in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Series R Bonds. Individual purchases of interests in the Series R Bonds will be made in book-entry form only, in the principal amount of \$5,000 or any integral multiple thereof. Purchasers of such interests will not receive certificates representing their interests in the Series R Bonds. Principal of and interest on the Series R Bonds are payable directly by U.S. Bank National Association, as trustee (the "Trustee"), to DTC, which is obligated in turn to remit such principal and interest to DTC Participants for subsequent disbursement to the Beneficial Owners of the Series R Bonds, as described herein. See APPENDIX F – "DTC DESCRIPTION" herein.

The Series R Bonds are subject to redemption prior to maturity as described herein.

The Series R Bonds are special obligations of the District, payable solely from Net Revenues of the Water System (as those terms are defined herein), and are secured by a pledge of Revenues; provided, however, that out of Revenues first there shall be applied all sums required for the payment of Maintenance and Operation Costs (as these terms are herein defined). The obligation of the District to pay debt service on the Series R Bonds from Net Revenues will be secured on a parity with the District's Outstanding Water Revenue Bonds and certain other obligations of the District as more particularly described herein. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES R BONDS – Outstanding Water Revenue Bonds and Other Parity Debt."

The faith and credit of the District is NOT pledged to the payment of the principal of or interest on the Series R Bonds.

The Series R Bonds are offered when, as and if issued and received by the Underwriters, subject to the approval of validity of the Series R Bonds and certain other legal matters by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the District. Bold, Polisner, Maddow, Nelson & Judson, A Professional Corporation, Walnut Creek, California will pass on certain legal matters for the District and Stradling Yocca Carlson & Rauth, A Professional Corporation, will pass on certain legal matters for the Underwriters. It is anticipated that the Series R Bonds, in book-entry form, will be available for delivery to the Trustee on behalf of DTC by Fast Automated Securities Transfer on or about July 30, 2013.

Morgan Stanley

Goldman Sachs & Co.

Raymond James

\$91,670,000
CONTRA COSTA WATER DISTRICT
WATER REVENUE REFUNDING BONDS
SERIES R

MATURITY SCHEDULE

<u>Maturity Date</u> <u>(October 1)</u>	<u>Principal</u> <u>Amount (\$)</u>	<u>Interest</u> <u>Rate (%)</u>	<u>Yield (%)</u>	<u>CUSIP</u> <u>Number[†]</u>
2015	7,540,000	5.00	0.55	212218RN3
2016	12,995,000	5.00	0.93	212218RP8
2017	13,670,000	5.00	1.28	212218RQ6
2018	14,370,000	5.00	1.60	212218RR4
2019	15,115,000	5.00	1.92	212218RS2
2020	1,875,000	5.00	2.25	212218RT0
2021	2,475,000	5.00	2.55	212218RU7
2022	1,115,000	5.00	2.85	212218RV5
2023	1,545,000	5.00	3.05	212218RW3
2024	1,080,000	5.00	3.27 ^c	212218RX1
2025	1,295,000	5.00	3.43 ^c	212218RY9
2026	1,025,000	5.00	3.57 ^c	212218RZ6

\$5,490,000 5.00% Term Bond Due October 1, 2033 - Yield 4.05%^c - CUSIP[†] Number 212218SA0

\$12,080,000 5.00% Term Bond Due October 1, 2043 - Yield 4.31%^c - CUSIP[†] Number 212218SB8

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^c Priced to optional redemption date of October 1, 2023, at par.

This Official Statement is intended only to furnish information in connection with the purchase of the Series R Bonds. The Official Statement DOES NOT constitute a recommendation, expressed or implied, to purchase or not to purchase the Series R Bonds or any other obligations or bonds of the District.

No dealer, broker, salesperson or other person has been authorized by the District to give any information or to make any representations, other than as contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the District.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

In connection with this offering, the Underwriters may over allot or effect transactions which stabilize or maintain the market price of the Series R Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. This Official Statement is not to be construed as a contract with the purchasers of the Series R Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of facts.

The information set forth herein has been furnished by the District and other sources as noted that the District believes reliable. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of the District or the System since the date hereof. This Official Statement is submitted in connection with the sale of the Series R Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY THE SERIES R BONDS, NOR SHALL THERE BE ANY SALE OF ANY OF THE SERIES R BONDS, BY ANY PERSON IN ANY JURISDICTION IN WHICH, OR TO ANY PERSON TO WHOM, IT IS UNLAWFUL TO MAKE SUCH OFFER, SOLICITATION OR SALE. In making an investment decision, potential investors must rely on their own examination of the District and the terms of the offering, including the merits and risks involved. The Series R Bonds have not been registered or qualified under the securities laws of any state. These securities have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this Official Statement. Any representation to the contrary is a criminal offense.

The summaries and references to the Resolution, the Continuing Disclosure Agreement and statutes and other documents do not purport to be comprehensive or definitive and are qualified in their entirety by reference to each such document and statute. The Series R Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon exemptions from the registration requirements contained in such Act.

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements." Such statements generally are identifiable by the terminology used, such as "plan," "expect," "estimate," "budget" or other similar words. Such forward-looking statements include but are not limited to certain statements contained in the information under the captions "THE WATER SYSTEM – Water Supply," "– Ten-Year Capital Improvement Program and Financial Plan," "– Rate Adjustments" and "– Projected Operating Results and Debt Service Coverage" in this Official Statement. The forward-looking statements are not guarantees of future performance. Actual results may vary materially from what is contained in a forward-looking statement. Factors which may cause a result different than expected or anticipated include new legislation, increases in suppliers' prices, particularly prices for purchased water and prices for power in connection with the operation of the Water System, changes in environmental compliance requirements, acquisitions, changes in customer water use patterns, natural disasters such as earthquakes, and the impact of weather on operating results. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The District does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations of events, conditions or circumstances on which such statements are based occur.

CONTRA COSTA WATER DISTRICT

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\$91,670,000
CONTRA COSTA WATER DISTRICT
(CONTRA COSTA COUNTY, CALIFORNIA)
WATER REVENUE REFUNDING BONDS, SERIES R

INTRODUCTION

The purpose of this Official Statement, which includes the cover page, the pages preceding this page and the appendices, is to set forth certain information concerning the Contra Costa Water District (the “District”), the water supply, treatment, storage, transmission and distribution system of the District (the “Water System” or the “System”), System finances, and the economy of the service area of the District, in connection with the sale by the District of \$91,670,000 aggregate principal amount of its Water Revenue Refunding Bonds, Series R (the “Series R Bonds”). The descriptions and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive, and reference is made to each document for the complete details of all terms and conditions. All statements herein are qualified in their entirety by reference to each document. All capitalized terms used in this Official Statement and not otherwise defined herein have the same meaning as in the Resolution (defined below).

The Series R Bonds are special obligations of the District, payable solely from Net Revenues of the Water System, as defined in Resolution No. 87-50 of the District, adopted on October 15, 1987, as amended and supplemented (the “Resolution”), including as supplemented by Resolution No. 13-12 of the District, adopted on June 19, 2013 (the “Nineteenth Supplemental Resolution”). “Net Revenues” for any Fiscal Year means the sum of (i) the System Revenues for such Fiscal Year plus (ii) the amounts, if any, withdrawn by the District from the Rate Stabilization Fund for treatment as System Revenues for such Fiscal Year, less the sum of (iii) all Maintenance and Operation Costs for such Fiscal Year and (iv) the amounts, if any, withdrawn by the District from System Revenues during such Fiscal Year for deposit in the Rate Stabilization Fund. The Series R Bonds are secured by a pledge of Revenues; provided, however, that out of such Revenues first there shall be applied all sums required for the payment of Maintenance and Operation Costs. Neither the credit nor the taxing power of the District is pledged to the payment of the Series R Bonds or the interest thereon. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES R BONDS – Pledge of Revenues” herein.

The Series R Bonds are authorized for issuance pursuant to the Resolution in accordance with the County Water District Law and Title 5, Division 2, Part 1, Chapter 3, Article 11 of the California Government Code (collectively, the “Law”).

PLAN OF REFUNDING

The Series R Bonds

The Series R Bonds are being issued by the District to provide funds (i) together with other available funds, to refund all of the District’s outstanding Water Revenue Refunding Bonds, Series M (the “Refunded Bonds”) in the principal amount of up to \$68,635,000, (ii) together with other available funds, to refund all of the District’s outstanding Water Revenue Notes, Series A, maturing on October 1, 2013, in the principal amount of \$30,625,000 (the “Refunded Notes”) (iii) together with other available funds, to refund all of the District’s State Revolving Fund loans outstanding on the date of delivery of the Bonds in the principal amount of \$12,531,544.80 (the “Refunded SRF Loans”) and (iv) to pay the costs of issuance of the Series R Bonds.

Certain proceeds of the Series R Bonds, together with other available moneys related to the Refunded SRF Loans will be used to prepay the Refunded SRF Loans on the date of delivery of the Series R Bonds.

Certain proceeds of the Series R Bonds, together with other available moneys related to the Refunded Bonds and Refunded Notes, will be transferred to U.S. Bank National Association as escrow agent (the “Escrow Agent”) under separate escrow agreements for the Refunded Bonds and Refunded Notes pursuant to which escrow funds will be established to pay for amounts due in connection with the refunding of the Refunded Bonds and Refunded Notes, respectively. The proceeds and other available moneys will be held uninvested in an amount that will be sufficient to pay the regularly scheduled payments of the Refunded Bonds and Refunded Notes and to redeem the Refunded Bonds on October 1, 2013, at a redemption price of 100% of the principal amount thereof plus interest accrued thereon. Upon such deposit, the Refunded Bonds and Refunded Notes will no longer be deemed to be outstanding. See “VERIFICATION” herein for additional information with respect to the Series M Bonds.

The amounts held by the Escrow Agent in the escrow fund relating to the Refunded Bonds are pledged solely to the payment and redemption of the Refunded Bonds, and the amounts held by the Escrow Agent in the escrow fund relating to the Refunded Notes are pledged solely to the payment of the Refunded Notes. Neither the amount deposited in the escrow funds nor the interest thereon, if any, will be available for the payment of debt service on the Series R Bonds.

The following table sets forth the maturities and par amounts of the Series M Bonds to be redeemed.

Series M Bonds
Base CUSIP Number: 212218

<u>Maturity Date</u> <u>(October 1)</u>	<u>Principal to be</u> <u>Redeemed</u>	<u>CUSIP</u> <u>Suffix</u> [†]
2013	\$ 700,000	MD0
2014	730,000	ME8
2015	11,430,000	MF5
2016	11,900,000	MG3
2017	12,515,000	MH1
2018	13,155,000	MJ7
2019	13,840,000	MK4
2020	535,000	ML2
2021	565,000	MM0
2022	590,000	MN8
2023	620,000	MP3
2024	650,000	MQ1
2025	685,000	MR9
2026	720,000	MS7

[†] CUSIP® is a registered trademark of the American Bankers Association. Copyright© 2013 Standard & Poor’s, a Division of the McGraw Hill Companies, Inc. CUSIP® data herein is provided by Standard & Poor’s CUSIP Service Bureau. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Service Bureau. CUSIP® numbers are provided for convenience of reference only. Neither the District nor the Underwriters take any responsibility for the accuracy of such numbers.

ESTIMATED SOURCES AND USES OF FUNDS

Sources:	Principal amount of the Series R Bonds	\$91,670,000.00
	Original Issue Premium	12,345,065.25
	Amounts available from the refunded obligations	10,425,819.46
	TOTAL SOURCES	\$114,440,884.71
Uses:	Prepayment of Refunded SRF Loans	\$12,558,639.84
	Deposit to Escrow Account for Refunded Bonds	70,286,575.00
	Deposit to Escrow Account for Refunded Notes	31,168,593.75
	Underwriters' Discount	165,266.57
	Costs of Issuance ⁽¹⁾	261,809.55
	TOTAL USES	\$114,440,884.71

⁽¹⁾ Includes: District Counsel's fees, Bond Counsel's fee, Financial Advisor's fee, Trustee and Escrow Agent fees, printing costs, rating agency fees and other costs incurred in connection with the issuance of the Series R Bonds.

THE SERIES R BONDS

General Description

The Series R Bonds are being issued in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"). DTC will act as securities depository of the Series R Bonds. Individual purchases of ownership interests in the Series R Bonds will be made in book-entry form only in denominations of \$5,000 or any integral multiple thereof. See APPENDIX F – "DTC DESCRIPTION."

The Series R Bonds will be dated their date of delivery, and bear interest at the rates and mature in the amounts and on the dates set forth on the inside cover page of this Official Statement. Interest on the Series R Bonds is payable on October 1, 2013, and semiannually thereafter on April 1 and October 1 in each year, calculated on the basis of a 360-day year comprised of twelve 30-day months. Principal of and interest on the Series R Bonds are payable by the Trustee to DTC, which is obligated in turn to remit such principal and interest to DTC Participants for subsequent disbursement to the Beneficial Owners of the Series R Bonds.

Mandatory Redemption

The Series R Bond maturing on October 1, 2033, is subject to mandatory sinking fund redemption (by lot within maturity) prior to its stated maturity date at a redemption price equal to the principal amount thereof, plus accrued interest to the redemption date, without premium, in accordance with the following schedule:

Series R Term Bond Maturing October 1, 2033

Mandatory Sinking Account Payment Date (October 1)	Mandatory Sinking Account Payment Amount
2027	\$ 670,000
2028	705,000
2029	745,000
2030	780,000
2031	820,000
2032	865,000
2033*	905,000

*Maturity Date.

The Series R Bond maturing on October 1, 2043, is subject to mandatory sinking fund redemption (by lot within maturity) prior to its stated maturity date at a redemption price equal to the principal amount thereof, plus accrued interest to the redemption date, without premium, in accordance with the following schedule:

Series R Term Bond Maturing October 1, 2043

Mandatory Sinking Account Payment Date (October 1)	Mandatory Sinking Account Payment Amount
2034	\$ 955,000
2035	1,005,000
2036	1,055,000
2037	1,110,000
2038	1,165,000
2039	1,225,000
2040	1,290,000
2041	1,355,000
2042	1,425,000
2043*	1,495,000

*Maturity Date.

Optional Redemption

The Series R Bonds maturing on or after October 1, 2024, are subject to redemption prior to their respective stated maturities, at the option of the District, from any source of available funds, as a whole or in part on any date by such maturities as may be designated by the District (or, if the District fails to designate such maturities, in inverse order of maturity and by lot within a maturity), on or after October 1, 2023, at a redemption price of par plus accrued interest to the date of redemption. The interest on the Series R Bonds so called for redemption shall cease to accrue on the date fixed for redemption.

Selection of Series R Bonds to be Redeemed

Whenever provision is made in the Resolution for the redemption of less than all of the applicable Series R Bonds of any maturity thereof, the Trustee shall select the Series R Bonds to be redeemed, from all Series R Bonds not previously called for redemption in minimum denominations of \$5,000, by lot in the manner specified by the District, and if not specified by the District, in any manner which the Trustee in its sole discretion shall deem appropriate and fair.

Notice of Redemption

Notice of redemption shall be mailed by the Trustee not less than 30 nor more than 60 days prior to the redemption date, to the respective owners of any Series R Bonds designated for redemption at their addresses appearing on the bond registration books of the Trustee. So long as the book-entry system is used for the Series R Bonds, the Trustee will give any notice of redemption or any other notices required to be given to registered owners of the Series R Bonds only to Cede & Co., as nominee for DTC. Any failure of DTC to advise any DTC Participant or of any DTC Participant to notify the Beneficial Owner, of any such notice and its content or effect will not affect the validity of the redemption of the Series R Bonds called for redemption or any other action premised on such notice. Beneficial Owners may desire to make arrangements with a DTC Participant so that all notices of redemption or other communications to DTC which affect such Beneficial Owners, including notification of all interest payments, will be forwarded in writing by such DTC Participant. See APPENDIX F – “DTC DESCRIPTION” herein.

Any notice of optional redemption of Series R Bonds may, at the option of the District, state that such redemption shall be conditioned upon the receipt by the Trustee on or prior to the date fixed for such redemption of amounts sufficient to pay the Redemption Price of the Series R Bonds to be redeemed or such other conditions as the District may select, and that if such amounts shall not have been so received or such other conditions shall not have been satisfied, said notice shall be of no force and effect and the District shall not be required to redeem such Series R Bonds. In the event that such notice of redemption contains such a condition and such conditions have not been satisfied, the redemption shall not be made and the Trustee shall within a reasonable time thereafter give notice, to the persons and in the manner in which the notice of redemption was given, that such amounts were not so received or such conditions were not satisfied. Such failure to redeem Series R Bonds shall not constitute an Event of Default.

Any notice of optional redemption may also be rescinded by written notice given to the Trustee by the District no later than two (2) Business Days prior to the date specified for redemption. The Trustee shall give notice of such rescission as soon thereafter as practicable in the same manner, and to the same persons, as notice of such redemption was given pursuant to this Section.

Effect of Redemption

If notice of redemption has been given as provided in the Resolution and moneys for the payment of the redemption price of, together with interest accrued to the redemption date on, such Series R Bonds so called for redemption is held by the Trustee, on the redemption date designated in such notice, the Series R Bonds or portions thereof so called for redemption shall become due and payable at the redemption price therein specified. Interest on the Series R Bonds called for redemption will cease to accrue from and after the date fixed for redemption and said Series R Bonds will cease to be entitled to any benefit or security under the Resolution, and the registered owners of said Series R Bonds will have no rights in respect thereof except to receive payment of the redemption price and accrued interest.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES R BONDS

General

The Series R Bonds are revenue bonds and are payable as to both principal and interest, and any premium upon redemption thereof, exclusively from the Net Revenues of the Water System. Neither the credit nor the taxing power of the District is pledged to the payment of the Series R Bonds. The owners of the Series R Bonds cannot compel the exercise of any taxing power of the District or the forfeiture of any of its property. The Series R Bonds are not a legal or equitable pledge, charge, lien or encumbrance upon any of the District's property (including the Water System) or upon any of its income, receipts or revenues except the Revenues of the Water System to the extent of the pledge thereof contained in the Resolution. Amounts held from time to time in the Interest Fund, Principal Fund, Redemption Fund and Bond Reserve Fund are also pledged to secure the payment of the Water Revenue Bonds (defined below), including the Series R Bonds.

Pledge of Revenues

The Revenues, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth therein, are pledged to the payment of the Contra Costa Water District Water Revenue Bonds and Contra Costa Water District Water Revenue Refunding Bonds authorized by, and at any time outstanding pursuant to, the Resolution, including the Series R Bonds (collectively, the "Water Revenue Bonds") and any Parity Debt issued in accordance with the Resolution. See "– Outstanding Water Revenue Bonds and Other Parity Debt" and "– Limitations on the Issuance of Obligations Payable from Net Revenues" below. The pledge of Revenues constitutes a charge and lien on and security interest in such assets.

The Revenues are pledged to the payment of Water Revenue Bonds and Parity Debt without priority or distinction of one over the other, subject to the condition that out of the Revenues:

First: There shall be applied all sums required for the payment of Maintenance and Operation Costs.

Second: There shall be applied all sums required for the payment of the principal of (including any premium thereon) and interest on the Water Revenue Bonds and all Parity Debt, together with any sinking fund or reserve fund payments of Water Revenue Bonds and Parity Debt.

All remaining Revenues, after making the foregoing allocation, are available to the District for all lawful District purposes. The pledge of Revenues is irrevocable until all of the Water Revenue Bonds and all Parity Debt are no longer outstanding.

"Revenues" is generally defined in the Resolution to mean all charges received for, and all other income and receipts derived by the District from, the operation of the Water System or arising from the Water System, together with any receipts derived from the sale of any property pertaining to the Water System or incidental to the operation of the Water System, together with all interest, profits and other income derived from the investment of moneys in any fund or account established under the Resolution (other than any fund established pursuant to a Rebate Certificate) or any other fund or account established by the District (including interest income from the investment of moneys in deferred compensation funds) but exclusive of any moneys derived from the levy or collection of taxes or assessments by the District. See APPENDIX B – "SUMMARY OF THE RESOLUTION."

“Maintenance and Operation Costs” is generally defined in the Resolution to mean (i) the reasonable and necessary costs of maintaining and operating the Water System, calculated in accordance with generally accepted accounting principles, including (without limitation) the reasonable expenses of management, repair and other expenses necessary to maintain and preserve the Water System in good repair and working order, and reasonable amounts for administration, overhead, insurance, taxes (if any) and other similar costs, and (ii) Purchased Water Costs (as defined in APPENDIX B – “SUMMARY OF THE RESOLUTION – DEFINITIONS” hereto), but excluding in all cases (a) depreciation and obsolescence charges or reserves therefor, amortization of intangibles, losses or gains on subsidiaries accounted for on an equity basis, or other bookkeeping entries of a similar nature, (b) all costs paid from the proceeds of taxes received by the District, and (c) all interest charges and charges for the payment of principal, or amortization, of bonded or other indebtedness of the District (other than Purchased Water Costs).

Bond Reserve Fund

The Trustee holds the Bond Reserve Fund. The District is required by the Resolution to maintain therein an amount equal to the Bond Reserve Requirement subject to the provisions of the Resolution permitting delivery of a letter of credit or insurance policy in full or partial satisfaction of the Bond Reserve Requirement as described below. The Bond Reserve Requirement is an amount, as of any date of calculation, equal to the lesser of (i) Maximum Annual Debt Service on all Water Revenue Bonds then outstanding; and (ii) 125% of average Annual Debt Service (excluding accrued interest) on all Water Revenue Bonds then outstanding, provided that in connection with the issuance of a series of Water Revenue Bonds the amount of the maximum Bond Reserve Requirement shall not exceed the sum of (a) the Bond Reserve Requirement as calculated immediately prior to the issuance of such series of Water Revenue Bonds plus (b) 10% of the initial proceeds of such series.

Upon the issuance of the Series R Bonds, the Bond Reserve Fund will be funded in an amount equal to the Bond Reserve Requirement. Monies on deposit or credited to the Bond Reserve Fund will be applied solely to the payment of Water Revenue Bonds in the event that amounts on deposit in the Interest Fund and the Principal Fund are insufficient therefor. Any cash amounts in the Bond Reserve Fund in excess of the Bond Reserve Requirement shall be transferred by the Trustee to the District on or before the first day of each month. In the event that amounts on deposit in the Bond Reserve Fund are less than the Bond Reserve Requirement, the District is required to deposit therein on the first Business Day of each January, April, July and October from Net Revenues after the required deposits for the payment of principal and interest with respect to the Water Revenue Bonds, one-fourth (1/4) of the amount of such deficiency until the balance in the Bond Reserve Fund is at least equal to the Bond Reserve Requirement.

In lieu of funding the Bond Reserve Fund with cash, or in replacement of moneys on deposit in the Bond Reserve Fund (which shall be transferred by the Trustee to the District), the District may deliver to the Trustee (i) an irrevocable letter of credit issued by a financial institution having unsecured debt obligations rated in one of the two highest rating categories of Moody’s Investors Service and Standard & Poor’s Corporation, and/or (ii) an insurance policy issued by an insurance company whose unsecured debt obligations (or for which obligations secured by such insurance company’s insurance policies) are rated in one of the two highest rating categories of Moody’s Investors Service and Standard & Poor’s Corporation) in (or securing) an amount, together with other amounts or insurance policies on deposit in the Bond Reserve Fund, equal to the Bond Reserve Requirement. See APPENDIX B – “SUMMARY OF THE RESOLUTION” herein. As of the date of issuance of the Series R Bonds, the Bond Reserve Fund is funded solely with cash and investments and is not secured by any letter of credit or insurance policy in lieu of such deposit.

Rate Covenant; Debt Coverage

So long as any of the Water Revenue Bonds are outstanding, the District will fix, charge and collect, or cause to be fixed, charged and collected, such rates, fees and charges for the use of and for the services furnished or to be furnished by the Water System which, together with all other receipts and revenues of the District, will produce sufficient Net Revenues in each Fiscal Year so that (i) the ratio of Net Revenues to Maximum Annual Debt Service at the end of each Fiscal Year is not less than 1.25:1.0, and (ii) the Obligation Service Coverage Ratio at the end of such Fiscal Year is not less than 1.0:1.0. The District covenants in the Resolution that it shall increase such rates, fees and charges to produce Net Revenues sufficient to meet such requirements.

“Maximum Annual Debt Service” is defined in the Resolution as the greatest amount of Annual Debt Service becoming due and payable in any Fiscal Year, including the Fiscal Year in which the calculation is made or any subsequent Fiscal Year; provided, however, that for the purposes of computing Maximum Annual Debt Service:

(a) Excluded Principal Payments (and interest on such Excluded Principal Payments from the date such Excluded Principal Payments are due and payable) shall be excluded from such calculation and Assumed Debt Service shall be included in such calculation;

(b) Debt service on Water Revenue Bonds or Parity Debt incurred to finance capital improvements shall be included in the calculation of Maximum Annual Debt Service for purposes of the calculation required by the provisions of the Resolution related to the District’s rates and charges and debt covenants only in proportion to the amount of interest on such Water Revenue Bonds or Parity Debt which is payable in the then current Fiscal Year from sources other than the proceeds of such Water Revenue Bonds and Parity Debt.

In addition, so long as the District is obligated to make payments pursuant to the Facility Lease entered into in connection with the issuance of the Contra Costa Water Authority’s 2002 Series A Bonds, the District has covenanted to include principal payments on Parity Debt for purposes of the calculation of Maximum Annual Debt Service.

Rate Stabilization Fund

The District is required to maintain and hold a separate fund to be known as the “Rate Stabilization Fund.” **The Rate Stabilization Fund is not pledged to secure the payment of the Water Revenue Bonds.** From time to time the District may deposit in the Rate Stabilization Fund from Revenues remaining after provision for debt service as described under “Pledge of Revenues” herein, such amounts as the District shall determine, provided that deposits for each Fiscal Year may be made until (but not after) one hundred twenty (120) days following the end of such Fiscal Year. The District may withdraw amounts from the Rate Stabilization Fund only for inclusion in Revenues for any Fiscal Year, such withdrawals to be made until (but not after) one hundred and twenty (120) days after the end of such Fiscal Year. All interest or other earnings upon deposits in the Rate Stabilization Fund shall be withdrawn there from and accounted for as Revenues. Notwithstanding the foregoing, no deposit of Revenues to the Rate Stabilization Fund may be made to the extent such Revenues were included in an engineer’s or accountant’s certificate submitted in accordance with the Resolution and withdrawal of the Revenues to be deposited in the Rate Stabilization Fund from the Revenues employed in rendering said engineer’s or accountant’s certificate would cause noncompliance with provisions of the Resolution. The Rate Stabilization Fund was established and is being maintained to assist the District to manage rates in connection with the issuance of Water Revenue Bonds to finance the capital projects of the District.

As of June 1, 2013, the balance in the Rate Stabilization Fund was \$56,880,000. The moneys in the Rate Stabilization Fund are available to assist in compliance with the rate covenant described above.

Outstanding Water Revenue Bonds and Other Parity Debt

As of June 1, 2013, the District had outstanding Water Revenue Bonds and other Parity Debt in the aggregate principal amount of \$403,574,692 consisting of the following series and amounts:

	Principal Amount Outstanding as of June 1, 2013
<u>District – Water Revenue Bonds</u>	
Senior Series M Bonds*	\$ 68,635,000
Senior Series N Bonds	114,555,000
Senior Series O Bonds	56,845,000
Senior Series P Bonds	40,380,000
Senior Series Q Bonds	<u>87,115,000</u>
Total	\$ 367,530,000
<u>Authority</u>	
2012 Series A Bonds	<u>\$ 22,940,000</u>
Total	\$ 22,940,000
<u>District – State Revolving Fund Loans</u>	
SRF Loan 2002*	\$ 8,132,299
SRF Loan 2003*	1,216,134
SRF Loan 2004*	<u>3,756,259</u>
Total	\$ 13,104,692
Total Senior Debt	\$ 403,574,692

* To be redeemed from proceeds of the Series R Bonds and other available funds as described in “PLAN OF REFUNDING.”

As shown in the table above, there are outstanding \$22,940,000 principal amount of the Contra Costa Water Authority’s 2012 Series A Bonds, payable from rental payments received by the Authority from the District pursuant to a Facility Lease, which rental payments are payable by the District from Net Revenues and secured on a parity with the outstanding Water Revenue Bonds.

On June 19, 2013, the District approved the issuance of not to exceed \$80,000,000 in principal amount of Water Revenue Bonds for the purpose of refunding certain Mezzanine Debt (defined below) and Extendable Commercial Paper (defined below) upon the occurrence of certain market conditions. The District cannot predict when such refunding bonds would be issued, if at all.

In June 2002, the District also borrowed \$15,137,776 (of which \$8,132,299 is outstanding as of June 1, 2013) from the State’s Safe Drinking Water Act State Revolving Fund (“SRF”) loan program. This loan covers the fundable portion under the State program of treatment process improvements at the District’s Bollman Water Treatment Plant. This loan bears interest at the rate of 2.5132% and matures on July 1, 2022. In October 2003, the District borrowed \$2,000,000 (of which \$1,216,134 is outstanding as

of June 1, 2013) from the SRF loan program. This loan covers the District's investment in water quality improvements at its Contra Loma Dam and Reservoir. This loan bears interest at the rate of 2.39% and matures on January 1, 2024. In May 2004, the District borrowed \$5,942,427 (of which \$3,756,259 is outstanding as of June 1, 2013) from the SRF loan program. This loan covers the District's investment in improvements to the Sedimentation Basins at its Bollman Water Treatment Plant. This loan bears interest at the rate of 2.39% and matures on July 1, 2024. Each of these SRF loans is payable by the District from Net Revenues and secured on a parity with the outstanding Water Revenue Bonds. The District expects to refund the SRF loans in whole or in part with proceeds of the Series R Bonds as described in "PLAN OF REFUNDING."

All of the District's Water Revenue Bonds and Parity Debt bear interest at fixed rates. The District has not previously entered into any interest rate swaps or other derivatives and does not currently intend to enter into any interest rate swaps or other derivatives with respect to its indebtedness.

Other Debt

As described under the heading "-- Limitations on the Issuance of Obligations Payable from Net Revenues," the District may issue indebtedness that is junior or subordinate to the Water Revenue Bonds.

Pursuant to a Note Trust Agreement, dated as of June 1, 2010, as supplemented (the "Note Trust Agreement"), in June 2010 the District issued promissory notes (the "Series A Notes") which are currently outstanding in the principal amount of \$69,800,000 to fully refund its outstanding subordinate lien tax-exempt commercial paper notes and to continue financing construction of the Middle River Intake Project. The Series A Notes were issued with maturity dates on October 1 in the years 2011 through 2015, bearing interest at rates from 1.00% to 4.00%. In July 2011 the District issued an additional series of promissory notes (the "Series B Notes") pursuant to the Note Trust Agreement which are currently outstanding in the principal amount of \$59,820,000 to finance or refinance certain capital projects of the District. The Series B Notes mature on October 1 in the years 2014 through 2016 and bear interest at rates from 2.00% to 5.00%. Promissory notes issued pursuant to the Note Trust Agreement, including the Series A Notes and Series B Notes, are payable from Net Revenues subordinate to the Water Revenue Bonds. A portion of the proceeds of the Series R Bonds will be used to pay the Series A Notes maturing on October 1, 2013, in the principal amount of \$30,625,000. All promissory notes issued under the Note Trust Agreement are referred to herein as "Mezzanine Debt" or "Water Revenue Notes."

In September 2012, the Board of Directors approved the issuance of up to \$80,000,000 of subordinate lien tax-exempt extendable municipal commercial paper notes (the "Extendable Commercial Paper") to finance District capital improvements and to refinance maturing Water Revenue Notes. On September 19, 2012, the District issued \$50,000,000 in Extendable Commercial Paper with \$30,000,000 used to refinance \$30 million in Water Revenue Notes that matured on October 1, 2012. The remainder was used to finance capital program costs, including the Los Vaqueros Reservoir Expansion ("LVE") Project. The Extendable Commercial Paper is payable from Net Revenues, subordinate to the Water Revenue Bonds and to the Water Revenue Notes.

Allocation of Net Revenues under the Resolution

The Resolution provides that, so long as any Water Revenue Bonds are outstanding, the District shall transfer Net Revenues to the Trustee for deposit in the following funds (each of which the Trustee shall establish, maintain and hold in trust for the benefit of the owners of the Water Revenue Bonds) in the following amounts, in the following order of priority, the requirements of each fund (including the

making up of any deficiencies in any such fund resulting from lack of Net Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any deposit is made to any fund subsequent in priority.

First: The District shall deposit with the Trustee in the Interest Fund, at least one Business Day before each interest payment date, an amount sufficient, together with any balance on hand in the Interest Fund, to pay interest becoming due and payable on the Water Revenue Bonds on such interest payment date;

Second: The District shall deposit with the Trustee in the Principal Fund, (i) at least one Business Day before each principal payment date, an amount sufficient, together with any balance on hand in the Principal Fund, to pay principal becoming due and payable on the Water Revenue Bonds on such principal payment date, and (ii) at least one Business Day prior to each date on which a Mandatory Sinking Account Payment is due, an amount sufficient, together with any balance on hand in the Principal Fund, to pay the Mandatory Sinking Account Payment required to be paid on such day; and

Third: The District shall deposit with the Trustee in the Bond Reserve Fund, except as otherwise provided in the Resolution, upon the occurrence of any deficiency therein, on the first Business Day of each January, April, July, and October, one-fourth (1/4th) of the amount of such deficiency until the balance in the Bond Reserve Fund is at least equal to the Bond Reserve Requirement.

All moneys in the Interest Fund, the Principal Fund, the Bond Reserve Fund and the Redemption Fund are pledged to the punctual payment of the principal of and interest on the Water Revenue Bonds.

Limitations on the Issuance of Obligations Payable from Net Revenues

The Resolution provides that the District shall not, so long as any of the Water Revenue Bonds are outstanding, issue any obligations or securities, howsoever denominated, payable in whole or in part from Net Revenues except the following:

- (a) Water Revenue Bonds payable from Net Revenues and secured by the pledge made under the Resolution equally and ratably with Water Revenue Bonds previously issued, provided that the following conditions are satisfied:
 - (i) No Event of Default shall have occurred and then be continuing.
 - (ii) Subject to the provisions of the Resolution relating to the funding and application of the Bond Reserve Fund, the Supplemental Resolution providing for the issuance of such Series shall require that the balance in the Bond Reserve Fund, forthwith upon the receipt of the proceeds of the sale of such Series, be increased, if necessary, to an amount at least equal to the Bond Reserve Requirement with respect to all Water Revenue Bonds to be Outstanding upon the issuance of such Series. Said deposit may be made from the proceeds of the sale of such Series or from other funds of the District or from both such sources, as provided in such Supplemental Resolution.
 - (iii) The aggregate principal amount of Water Revenue Bonds issued hereunder shall not exceed any limitation imposed by law or by any Supplemental Resolution.

- (iv) **Either (i) the Debt Service Coverage Ratio for the most recent Fiscal Year for which audited financial statements are available, calculated as of the date of sale of such series of Water Revenue Bonds and including the Water Revenue Bonds and Parity Debt then Outstanding and such additional series of Water Revenue Bonds, shall not be less than 1.25:1.0; provided that in calculating the Debt Service Coverage Ratio:**
 - (A) **if rates and charges in effect on the date upon which such series of Water Revenue Bonds will become Outstanding will be greater than those in effect during the most recent Fiscal Year for which audited financial statements are available, then the Net Revenues for said Fiscal Year may be augmented by 75% of the estimated increase in Net Revenues computed to accrue to the System in the first twelve months during which such rates and charges shall be in effect; and**
 - (B) **Net Revenues may be augmented by 75% of the projected increase in annual Net Revenues to be provided by additional facilities under construction (financed from any source) or to be constructed with the proceeds of the series of Water Revenue Bonds then being issued; or (ii):**
 - (A) **The District has complied with Section 6.09 for the most recent Fiscal Year for which audited financial statements are available; and**
 - (B) **the Debt Service Coverage Ratio for each of the five full Fiscal Years beginning with the first full Fiscal Year following the issuance of such additional series of Water Revenue Bonds (or, if later, the first full Fiscal Year in which less than ten percent (10%) of the interest coming due on such additional series of Water Revenue Bonds is to be paid from the proceeds of such Water Revenue Bonds) is projected to be at least equal to 1.25:1.0.**
- (b) **Refunding Bonds in an aggregate principal amount sufficient (together with other available funds) to pay the principal or redemption price of all outstanding Water Revenue Bonds or Parity Debt to be refunded, all expenses incidental thereto, interest on all Outstanding Water Revenue Bonds or Parity Debt to be refunded to the date such Water Revenue Bonds or Parity Debt will be called for redemption or paid at maturity and interest on the Refunding Bonds from the date thereof to the date of payment or redemption of the Water Revenue Bonds or Parity Debt to be refunded.**
- (c) **Parity Debt payable on a parity with the outstanding Water Revenue Bonds and which will have, when issued, an equal lien and charge upon the Net Revenues, provided that the following conditions to the issuance of such Parity Debt are satisfied:**
 - (1) **Such Parity Debt has been duly and legally authorized for any lawful purpose.**
 - (2) **The proceedings for the issuance of such Parity Debt shall require the District to establish, fix and collect rates and charges in an amount not less than the amounts necessary to maintain at the end of each Fiscal Year the Debt Service Coverage Ratio not less than 1.25:1.0 and the Obligation Service Coverage Ratio at not less than 1.0:1.0.**

(3) No Event of Default shall have occurred and then be continuing, as evidenced in a Certificate of the District filed with the Trustee.

(4) Either:

(A) The District delivers to the Trustee a Certificate of the District and a certificate of an independent engineer or an independent certified public accountant evidencing that the Debt Service Coverage Ratio for the most recent Fiscal Year for which audited financial statements are available, calculated as of the date of sale of such Parity Debt and including the Water Revenue Bonds and Parity Debt then outstanding and such additional Parity Debt, shall not be less than 1.25:1.0; provided that in calculating the Debt Service Coverage Ratio:

(i) if rates and charges in effect on the date upon which such Parity Debt will become outstanding will be greater than those in effect during the most recent Fiscal Year for which audited financial statements are available, then the Net Revenues for said Fiscal Year may be augmented by 75% of the estimated increase in Net Revenues computed to accrue to the Water System in the first twelve months during which such rates and charges shall be in effect; and

(ii) Net Revenues may be augmented by 75% of the projected increase in annual Net Revenues to be provided by additional facilities under construction (financed from any source) or to be constructed with the proceeds of the Parity Debt then being issued;

-or-

(B) The District delivers to the Trustee a Certificate of the District and a certificate of an independent engineer or an independent certified public accountant to the effect that:

(i) the Debt Service Coverage Ratio for the most recent Fiscal Year for which audited financial statements are available, including the Water Revenue Bonds or Parity Debt then outstanding but not such additional Parity Debt, was at least equal to 1.25:1.0, and the Obligation Service Coverage Ratio was at least equal to 1.0:1.0; and

(ii) the Debt Service Coverage Ratio for each of the five full Fiscal Years beginning with the first full Fiscal Year following the issuance of such additional Parity Debt (or, if later, the first full Fiscal Year in which less than 10% of the interest coming due on such additional Water Revenue Bonds or Parity Debt is to be paid from the proceeds of such Water Revenue Bonds or Parity Debt) is projected to be at least equal to 1.25:1.0.

(5) The District delivers to the Trustee an Opinion of Bond Counsel to the effect that such Water Revenue Bonds or Parity Debt have been duly authorized in accordance with the law and all prior proceedings of the District.

- (d) Obligations which are junior and subordinate to the payment of the principal, premium, interest and reserve fund requirements for the Water Revenue Bonds and all Parity Debt and which subordinated obligations are payable as to principal, premium, interest and reserve fund requirements, if any, only out of Net Revenues after the prior payment of all amounts required to be paid from Net Revenues for principal, premium, interest and reserve fund requirements for the Water Revenue Bonds and all Parity Debt, as the same become due and payable and at the times and in the manner as required in the Resolution.

Limitations on Encumbrances

The Resolution provides that the District will not mortgage or otherwise encumber, pledge, or place any charge upon the Water System or any part thereof, and the District will not create any pledge, lien or charge upon any of the Net Revenues except only as permitted by the Resolution in connection with the issuance of additional obligations payable from Net Revenues as described under “Limitations on the Issuance of Obligations Payable from Net Revenues”.

THE CONTRA COSTA WATER DISTRICT

History and Purpose

The District was formed as a legal entity on May 9, 1936, in response to the growing water demands of Contra Costa County, California (the “County”). The District purchases and distributes water provided primarily by the United States Bureau of Reclamation (“Reclamation”) from the Federal Government's Central Valley Project (the “CVP”). The backbone of the District’s distribution system is the 48-mile Contra Costa Canal, which transports water from screened intakes in the Sacramento-San Joaquin Delta to the District’s treatment plants and municipalities, industry, and local water companies. The District stores untreated water in four reservoirs. The largest reservoir, Los Vaqueros, has a newly expanded capacity of 160,000 acre-feet. The District operates three water treatment plants, Randall-Bold and Contra Costa Water District/City of Brentwood in Oakley, and Ralph D. Bollman in Concord. The District delivers safe, high-quality drinking water to approximately 500,000 people in central and eastern Contra Costa County in Northern California. Formed in 1936 to provide water for irrigation and industry, the District is now one of the largest urban water districts in California and a leader in drinking water treatment technology and source water protection.

The District distributes water in central and northeastern Contra Costa County, California. Cities and unincorporated communities served include Antioch, Bay Point, Brentwood, Clayton, Clyde, Concord, Martinez, Oakley, Pacheco, Pittsburg and Port Costa, and portions of Pleasant Hill and Walnut Creek. The total area of the District is 137,127 acres (compared to 48,000 acres when the District was formed in 1936).

The District serves treated water directly to approximately 200,000 people in the cities of Clayton, Clyde, Concord, Pacheco, Port Costa and parts of Martinez, Pleasant Hill, and Walnut Creek. Treated water is also served to the cities of Antioch and Brentwood, the Golden State Water Company in Bay Point, and the Diablo Water District in Oakley for distribution to their respective customers.

The District also delivers untreated water to the cities of Antioch, Martinez, and Pittsburg. These cities treat the water and directly distribute it to approximately 300,000 people within their respective service areas. Untreated water is provided to major industrial customers including Tesoro and Shell Oil

Company oil refineries, General Chemical and USS-POSCO Industries, a sheet metal/sheet fabrication company.

The Contra Costa Water Authority (the “Authority”) was formed in 1990 between the District and the Diablo Water District. The Authority is empowered to finance, construct, maintain, operate and make improvements to the Randall-Bold Water Treatment Plant. The Authority has been included in the District’s financial statements because the District is responsible for the Authority’s outstanding debt.

Organization

A five-member Board of Directors, elected for staggered four-year terms, governs the District. The District’s five divisions contain approximately equal populations, and each elects one Director, who must be a resident of that division. The District has a staff of approximately 310 full-time equivalent employees headed by a General Manager.

The following persons currently form the District’s Board of Directors (the “Board”):

Joseph L. Campbell, *Division 3 Director and President*

Joe Campbell was elected to the Contra Costa Water District's Board of Directors in 1991 and serves presently as Board President, a role he has held for most of his years on the Board. He represents eastern Concord, Clayton, and parts of Walnut Creek and Pleasant Hill. Mr. Campbell’s “passion” is heavy construction and engineering. After 23 years in the heavy construction industry, Mr. Campbell sold his firm (Joseph L. Campbell, Inc.) in 1989. He is currently an independent businessman. In 1988, he served as co-chairman and a key fundraiser for the successful campaign to approve bonds for the District's \$450 million Los Vaqueros Reservoir Project, and he belonged to the steering committee for the statewide campaign against the Peripheral Canal in 1982. Until his election to the Contra Costa Water District Board, Mr. Campbell served as chair of the Contra Costa County Airport Land Use Commission, which regulates development that could affect air traffic safety at the county airports in Concord and Byron. He is a commercial pilot, and holds a single and multi-engine license with an instrument rating. Mr. Campbell is a former vice president of the Concord Chamber of Commerce, and served as a member of the Concord General Plan Committee and the Founder Advisory Board of Concord Commercial Bank. He is member of the Board of Directors of the Contra Costa Council, and a member of Concord Rotary Club. He is an Honorary Board Member of the Concord Historical Society. He is a former member of the Walnut Creek Child Care Task Force, former parade chairman for the Walnut Festival Association, former board member of the Northgate High School Sports Boosters, and a former board member for the American Red Cross. Mr. Campbell is past president and a founder of the Concord Economic Development Corporation, a partnership of the Concord Chamber of Commerce and the City of Concord.

Karl L. Wandry, *Division 5 Director and Vice President*

Karl L. Wandry was appointed to the Contra Costa Water District Board of Directors on February 5, 2003, representing parts of Antioch, Oakley, Brentwood, and the Los Vaqueros Reservoir watershed. He was elected without opposition in 2004 and 2008. He was elected Vice-President in 2008. Mr. Wandry is a planning consultant with extensive experience in city and regional planning and community development throughout the region. He has served as Contra Costa County’s Chief of Land Development and Zoning Administrator; Deputy Director, Community Development Department; and Advance Planner in the County Planning Department. In addition, he has served as the Community Development Director for the City of Rio Vista and Supervising Planner for the City of Antioch. As a graduate of Antioch High School, he is a long-time resident of eastern Contra Costa County. Mr. Wandry

graduated with honors from Diablo Valley College in 1966, and Magna Cum Laude from California State University, Hayward in 1968. He went on to study for a Master's degree in Geography from the University of Victoria in British Columbia, Canada. He is a past director of the Contra Costa Child Care Council, the Boy Scouts of America Executive Board, Mt. Diablo Council, and Rio Vista Care. He is a current member of the American Institute of Certified Planners and the American Planning Association.

Bette Boatmun, *Division 4 Director*

Bette Boatmun was elected to the Contra Costa Water District Board of Directors in 1974, representing portions of Pittsburg, Antioch, and Concord. She served as president of the Board of Directors from 1990 to 1992, and vice president from 1981 to 1989. She is the former executive director of the YWCA of Contra Costa County, and is active and has been active in a number of community organizations, including the Concord American Association of University Women, Sons of Italy, and Soroptomist International. She is a member of the Board of Directors for the Kennedy King Scholarship Foundation and Gallery Concord. In 2002 and 2003, she was president of the Association of California Water Agencies ("ACWA"), a statewide organization that represents agencies receiving approximately 90 percent of the water delivered in California, and is past chair of ACWA Region 5. She currently holds chair positions on the Governing Board of East County Water Management Association and the Contra Costa Special Districts' Association and is past chair of the Sanitation & Water Agencies of Contra Costa County. In March 2001, Ms. Boatmun was honored as the California State Assembly's "Woman of the Year" for the 11th Assembly District. Ms. Boatmun has a Bachelor of Science degree from Russell Sage College, Troy, New York, and a Master of Education from Holy Names College, Oakland, California. She was a teacher in public schools in California and New York and a consultant for the Job Corps.

John A. Burgh, *Division 2 Director*

John Burgh has served on the Contra Costa Water District Board of Directors since 2004, representing Port Costa, Pacheco, and parts of Pleasant Hill, Martinez, and Concord. He is a retired engineer who has worked on water and wastewater projects throughout the world. He has a total of 42 years of experience in the administration, project management, and design of public works projects. For the last 30 years of his career, he worked for an environmental engineering consulting firm, where he retired as Vice President. He holds a Bachelor of Science degree from the University of Notre Dame and a Masters in Management degree from the University of New Mexico. He is a registered civil engineer in California and a Diplomate of the American Academy of Environmental Engineers and Scientists. He is an Air Force veteran. He is President of the Contra Costa Historical Society. A resident of Concord for over 25 years, he is a member of the Pleasant Hill Rotary Club. His hobby is restoring and driving old Studebakers. He is Past President of the national Antique Studebaker Club.

Lisa M. Borba, *Division 1 Director*

Lisa M. Borba was first appointed to the Contra Costa Water District's Board of Directors in April 2010 and was elected to a four-year term in November 2010 after running for the office unopposed. She represents Division 1, which includes the cities and communities of Concord, Clyde, Bay Point and parts of Pittsburg, Martinez and Pleasant Hill. A resident of Concord, she is a professional land planner certified by the American Institute of Certified Planners and currently employed by a private land development company. She started her planning career in 1990 after earning a bachelor's degree in environmental studies from the University of California at Santa Barbara. Her professional experience includes working with federal and state permitting agencies, the county Board of Supervisors, and local city councils and commissions. As a volunteer, she has worked with the Holbrook Heights Community

Association, the Wheelchair Foundation, the Baldwin Park Canine Contingent, the Executive Womens Golf Association, and Leadership San Ramon Valley. She is also a member of the American Planning Association, the American Institute of Certified Planners, the League of Women Voters, the Pleasant Hill/Walnut Creek Mothers Club, the El Sobrante Golf Club, and the Concord Bocce Federation.

The senior District management is comprised of:

Jerry D. Brown, PE, *General Manager*

Jerry Brown was appointed General Manager of the Contra Costa Water District in September 2010. He has 26 years of experience in planning, design, construction, operation and maintenance of water, wastewater and water recycling systems for urban areas. He has expertise in management and leadership of large organizations including strategic business planning and financial management. Mr. Brown has been with the District since 2001 beginning as Director of Planning and then becoming the Assistant General Manager of Planning and Operations & Maintenance in 2008. In these capacities, he lead the operations and maintenance of water system facilities serving more than 500,000 customers while overseeing the planning activities of the District associated with securing water supply and water quality, development of new business initiatives, conducting infrastructure planning including development of the annual capital improvement program, and conducting planning studies for enlarging the Los Vaqueros Reservoir to a capacity of 160,000 acre-feet.

Mr. Brown is actively involved with the Climate Change Committee with the Association of Metropolitan Water Agencies. He is a dedicated member of the American Water Works Association and serves as a project advisor on various water research projects including the Recycled Water Standards Committee. He is an active member of the American Society of Civil Engineers where he was past chair of the Committee on Engineering Management and Business Practices. He is an Executive Committee Member of CalDesal, and is also engaged in work with the Water Research Foundation as a member of the Project Advisory Committee and as a past co-chair on the Regulation/Permitting Workgroup of California Water Recycling Task Force. Mr. Brown has authored several papers and articles focused on water and wastewater management, and engineering. Mr. Brown is a registered Civil and Mechanical Engineer in California. He holds a Bachelors Degree in Mechanical Engineering from California State University at Northridge, a Master's Degree in Civil Engineering from the University of Southern California and a Master's Degree in Business Administration from California State University at San Jose. His career began with the Los Angeles Department of Water and Power in 1986. From 1991 to 2000, he worked with the East Bay Municipal Utility District. He then worked with the San Jose Water Company prior to starting with the District.

Stephen J. Welch, *Assistant General Manager - Engineering*

Mr. Welch has been Assistant General Manager – Engineering, overseeing Capital Projects/ Operations and Maintenance (“O&M”) for the District since January 2008. He holds Bachelor and Masters of Science degrees in Civil Engineering and a Masters of Business Administration, all from the University of California at Berkeley. Mr. Welch began with the District in 1997 as a Principal Engineer and has earned promotions to his current position. He is responsible for all planning, engineering and construction work, as well as District operations and maintenance. He also oversees the Watershed and Lands Department. In total, he manages a staff of over 220 people among five departments.

Brice J. Bledsoe, *Assistant General Manager - Administration*

Mr. Bledsoe has been with the District since November 1999 and was promoted, effective May 2013 to Assistant General Manager – Administration. He oversees the areas of finance, human resources, and information systems. Mr. Bledsoe is also responsible for management of the District’s Retirement Trust and Other Post Employment Benefit (“OPEB”) Contribution Plan. Mr. Bledsoe has served as the District’s Director of Finance and Human Resources since February 2012, after being promoted from Director of Finance. He was first hired by the District in 1999 as Accounting Manager. From 1997 through 1998, Mr. Bledsoe was the Finance Director for the Central Valley Project Water Association, where he advocated financial issues with Reclamation on behalf of the CVP water contractors. Mr. Bledsoe worked as a CPA with a public accounting firm from 1992-1997. Mr. Bledsoe graduated with honors from California State University, Sacramento in 1992 with a Bachelor’s degree in Business Administration, Concentration in Accounting.

Desiree C. Castello, *Director of Finance*

Ms. Castello was recently promoted to Director of Finance after serving as the District’s Finance Manager since February 2011. She is responsible for the District’s finance, customer service, and conservation functions. Ms. Castello first joined the Finance Department in 2001, focusing on investment reporting and financial statements. She then worked as the General Manager’s Executive Management Analyst for nine years. Ms. Castello represents the District on state-wide committees for the Central Valley Project Water Authority and the California Urban Water Agencies. She earned a Bachelor’s degree in Business Administration from St. Mary’s College of California in 1984, and has approximately 30 years of experience in the finance/accounting field.

Employee Relations

The District staffs approximately 310 full-time employees and has two recognized employee unions: Clerical/Maintenance Representation Unit and Professional/Supervisory Representation Unit.

The International Union of Operating Engineers, Stationary Engineers, Local 39 (“Local 39”) represents approximately 180 members of the Clerical/Maintenance Representation Unit. The current Memorandum of Understanding with Local 39 covers the term of July 1, 2007 through June 30, 2014. The International Federation of Professional and Technical Engineers, Local 21 (“Local 21”), represents approximately 100 members of the Professional/Supervisory Representation Unit. The current Memorandum of Understanding with Local 21 covers the term of November 17, 2008 through November 8, 2015. A positive working relationship exists between the District and both unions, with joint monthly meetings held to discuss any labor concerns and to collaboratively address any identified issues.

Two other employee groups (not recognized bargaining units) exist at the District and include approximately 30 employees: the Confidential Unit, covering confidential employees such as Human Resources staff and Confidential Secretaries, and the Unrepresented Employees Group, consisting of all management employees. Both groups have an annual employment contract issued in October that describes all employment terms and conditions for the next year.

The District has experienced no labor strikes and considers its labor relations environment to be collaborative and successful, as evidenced by the long-term contracts negotiated in 2007 and 2008, respectively, which include language specifying that an agreement has been made to resolve any potential disputes via mediation.

Insurance

The District maintains the following liability insurance coverage:

Primary Excess Liability Policy: Starr Indemnity & Liability Company. Limit of \$10 million subject to a \$500,000 self-insurance retention. Coverage includes comprehensive general, automobile, errors and omissions, and employment practices liability.

Secondary Excess Liability Policy: Lexington Insurance Company. Limit of \$20 million, in excess of \$10 million (primary policy limit).

Affiliated FM Insurance Company provides property insurance for \$150 million any one occurrence, subject to a \$100,000 deductible. Coverage includes all risks (subject to policy exclusions) including flood, boiler and machinery; \$5 million business interruption; \$2 million Extra Expense. Earth movement coverage of \$1.5 million is provided only for damage to the water distribution control systems, referred to as the Supervisory Control and Data Acquisition (“SCADA”) system, and the Distributed Control System (“DCS”). The District’s insurance does not provide coverage for terrorist acts; however, the District conducted a vulnerability assessment as required by the Environmental Protection Agency (“EPA”) and has implemented all recommendations contained in the assessment.

The District also maintains a marine policy (watercraft property and liability insurance), with a \$1 million limit, subject to a \$5,000 deductible, and a policy covering crime (employee dishonesty, computer fraud, theft, disappearance, destruction, forgery or alteration), with a \$1 million limit, subject to a maximum deductible.

In addition, the District maintains Workers’ Compensation and Employer’s Liability coverage, at the statutory limits, with employer’s liability limited to \$5 million with no deductible.

The District’s insurance is reviewed by its risk manager on an annual basis and adjustments are made as determined by the District.

Retirement Program

The District has an independent single employer defined pension benefit retirement plan established by a trust agreement in which all permanent and full-time employees to the District are eligible to participate. The plan is a defined benefit plan providing a retirement allowance determined by an employee’s highest basic compensation in the last twelve consecutive months of employment and the length of employment with the District. The plan is funded by employee and employer contributions. As of June 30, 2012, there were 301 active members in the plan. Retired members and beneficiaries currently receiving benefits number 249. Inactive members total 96 members, for total plan membership as of June 30, 2012 of 646 members. As of June 30, 2012, there was a \$33.3 million unfunded pension benefit obligation, and the funded ratio was 75.9%. From FY2011 to FY2012, the District’s funded ratio decreased from 85.7% to 75.9%. The District believes this is a short-term impact caused by market losses experienced during depressed economic conditions in 2008 and 2009 and the impact of five-year smoothing on the actuarial value of assets. As the District has recognized gains in three of the past four fiscal years, the District currently anticipates an increase in the funded ratio. The projected annual pension cost for FY2013 is \$5.1 million and is included in operation and maintenance expenses. To further fund the plan and accelerate the pay down of the \$33.3 million unfunded liability, the District made a \$4.5 million ad hoc contribution on June 11, 2013.

On January 1, 2013, the District implemented the provisions of the Public Employees' Pension Retirement Act ("PEPRA"). The District is in full compliance with PEPRA and does not anticipate any significant impacts on either the District's hiring or financial operations.

The District currently offers post-retirement health care benefits. These benefits are paid through the Contra Costa Water District Other Post-Employment Benefit ("OPEB") Trust. As of June 30, 2012 there were 172 retirees or their beneficiaries receiving these health care benefits. These benefits are provided through payments to an insurance company. The actual benefits paid to beneficiaries totaled \$2.2 million in FY2012 and is included in operation and maintenance expenses. Annual funding is provided for in the two-year budget and projected in the ten-year rate analysis and the Capital Improvement Program ("CIP") and Ten-Year Financial Plan. During FY2008, the District elected to implement the provisions of The Government Accounting Standards Board Statement No. 45 ("GASB 45") a year early. As part of the implementation, the District established an irrevocable trust to provide a funding mechanism for the OPEB. As of June 30, 2012, the District had \$15.1 million in the OPEB Trust, which represents a funded ratio of 21%. The District's total liability is \$71.9 million based upon the most recent actuarial analysis using June 30, 2011 results. The District has up to 30 years to fully fund its liabilities under GASB 45. The projected cost for FY2013 is \$2.9 million.

The next actuarial reports for both the Retirement Plan and OPEB Trust will be based on the FY13 audited financial statements, and presented to the Board of Directors for acceptance in December 2013.

Investment Policy

The investment goals of the District are to provide safety, liquidity, and diversity, and to minimize risks while maintaining a competitive yield on its investment portfolio. District funds are invested in accordance with the requirements of California Government Code Section 53651 governing public funds and Section 7.16.060 of the District's Code of Regulations. See Note 2 to the financial statements included in APPENDIX A. As of March 31, 2013, the District's investments include approximately 25% in cash and cash equivalents with maturities of 90 days or less and the balance in U.S. government securities, corporate bonds and guaranteed investment contracts.

No Interest Rate Swaps

The District has not previously entered into any interest rate swaps or other derivatives and does not currently intend to enter into any interest rate swaps or other derivatives with respect to its indebtedness.

THE WATER SYSTEM

Water Supply

The District's current water deliveries are approximately 100,000 acre-feet annually to service the District's customer base. The reduced level of water use in recent years reflects lower than normal deliveries due to the recent economic downturn and prior years' conservation efforts. The District's water sales are projected by the District to increase in the current year and reach 115,000 acre-feet by 2020. Some of the District's wholesale treated and untreated water customers have alternative water supplies from either their own Delta water rights or access to well water. The District's water supply planning contemplates the need to serve the total demand in its service area in the event these alternative water supplies are not available to its wholesale customers during times of drought or poor water quality.

Projected total demand in the District's service area under these circumstances is approximately 200,000 acre-feet annually by 2020. The water supply that the District is authorized to divert under its current biological opinion from the California Department of Fish and Wildlife is 222,000 acre-feet annually, which is more than sufficient to meet both its current water demand and its projected water demand in 2020 of 200,000 acre-feet.

The District obtains most of its untreated water supply from the CVP by diversion from the Delta under a long-term contract with Reclamation ("Reclamation Contract") that was renewed on May 10, 2005, and by its terms is effective from March 1, 2005, through February 28, 2045. The water is diverted from the Delta at Rock Slough, Old River near Discovery Bay, Middle River near Victoria Island, or the Freeport Intake on the Sacramento River. Water may also be diverted at Mallard Slough under District water rights depending on water quality and availability. Diverted water is conveyed to the District's water treatment facilities and its untreated water distribution system through the Contra Costa Canal. The District's primary water source for all diverted water is the Shasta Reservoir.

The District's existing Reclamation Contract provides for water deliveries through the year 2045. The Reclamation Contract provides that it may be extended under terms and conditions agreeable to the parties for successive periods not to exceed 40 years each. The District's annual quantity of water available from CVP is 195,000 acre feet.

The Reclamation Contract provides for water service. A separate contract provision for District operation and maintenance of the Contra Costa Unit of the CVP was also included in the Reclamation Contract. The Contra Costa Unit consists of the Contra Costa Canal system, Contra Loma Reservoir, the so-called "New Facilities" (which include the Shortcut Pipeline, four pumping units and related facilities), and various lateral connections. The United States government holds title to these facilities. The District is responsible for operating and maintaining these facilities and is required to pay for the capital cost of these facilities under its contract with Reclamation, at Reclamation's cost plus interest. The District completed repayment of the capital obligation in 2010. However, the District has a continuing Federal obligation to make capital improvements. The District has established a capital project to begin refurbishing the Shortcut Pipeline component, with costs estimated at \$9.0 million. The District currently levies a tax on its service area to offset costs that it is obligated to bear under the Reclamation Contract. The proceeds of this tax are not pledged or available to pay debt service.

The rate for CVP water service paid by the District covers reimbursement for service charges and cost of power, repair and replacements. The cost of water under the Reclamation Contract is currently \$16.94 per acre-foot. In October 1992, Congress enacted the Central Valley Project Improvement Act ("CVPIA", Title XXXIV, P.L. 102-575). The most significant impact of this legislation on the District was the establishment of the Restoration Fund, which currently requires a charge to the District of \$19.58 per acre-foot, for municipal and industrial water and irrigation water delivered under the Reclamation Contract. The District has been making payments to the Restoration Fund since the 1994 amended Reclamation Contract went into effect. During FY2012, \$1,884,917 of the District payments to the Bureau went to this fund. The Restoration Fund was established to carry out the habitat restoration, improvement and acquisition provisions of the CVPIA.

The quantity of water that can be delivered to the District by Reclamation under the Reclamation Contract is 195,000 acre-feet per year. The shortage provision under the Reclamation Contract establishes a firm water delivery "floor" in the event of shortages. No reduction in the water available to the District can occur unless Reclamation has declared that a shortage exists and has imposed significant reductions in deliveries to irrigation users. Should Reclamation be unable to make full deliveries due to a water shortage (i.e., a drought), the Reclamation Contract provides that the District's supply shall be not

less than 75% of historical use, unless allocations to irrigation customers fall below 25%. In the event that Reclamation determines that a water shortage emergency exists and that the shortage is so severe that CVP agricultural water users' allocations are reduced below 25%, the District's supply can be reduced below 75% of historical use. In such event, the Reclamation Contract provides that the delivery of CVP water will not be less than 65% of historical use, which is the quantity estimated to be sufficient to satisfy public health and safety requirements as set forth in the District's current water shortage contingency plan.

Reclamation set annual water allocations, of which the District has received, in the full amount of supply needed and used by the District. Although shortages were declared for the CVP in Reclamation's water supply year 2009, under the shortage formulas specific to the District's contract, the District received a sufficient supply. Both the allocation and deliveries have increased since 2010. While Reclamation's allocation is based upon contractual entitlements and water supply circumstances, the deliveries reflect actual usage and needs of CVP water.

**DISTRICT'S ANNUAL RECLAMATION WATER
ALLOCATIONS AND ACTUAL DELIVERIES**

Bureau Water Supply Year (Mar-Feb)	Acre-Feet Allocated	Acre-Feet Delivered	
2009*	110,500	92,867	
2010**	195,000	59,460	
2011†	195,000	90,085	
2012†	195,000	125,718	
2013†	195,000	127,500	(Projected)

* The reduced 2009 allocation of 110,500 acre feet was the result of the water shortage declared for the CVP due to statewide drought conditions.

** Deliveries in 2010 were lower due to drawdown of the Los Vaqueros Reservoir to support construction of an expanded facility.

† Increased deliveries in 2011, 2012 and 2013 reflect increased water sales and refilling of the expanded Los Vaqueros Reservoir.

The District also obtains untreated water from Mallard Slough in the Delta under a State water rights permit and license. The District diverts untreated water from Mallard Slough, which is closer to San Francisco Bay than the District's other water diversion points, when the water quality at that location is better than the District's minimum quality standards. The District is permitted to divert up to 26,780 acre-feet per year from Mallard Slough.

In its Decision 1629 (June 2, 1994), the State Water Resources Control Board ("SWRCB") granted to the District the right to divert up to 95,850 acre-feet per year of water from the Sacramento/San Joaquin Delta ("Los Vaqueros Water Right"). The Los Vaqueros Water Right permit has a priority date of June 5, 1961, and is senior to rights with later dates. The Los Vaqueros Water Right is subject to the restrictions on rate, amount, and timing of diversions in its water right permit; some of those same restrictions are found in the California Department of Fish and Wildlife's Incidental Take Permit, as well as in the U.S. Fish and Wildlife Service's and National Marine Fisheries Service's Biological Opinions for District operations.

The District has also secured an additional long-term water supply from East Contra Costa Irrigation District ("ECCID") by contract. The District entered into an agreement with ECCID in late

1999 which provides a permanent entitlement of 8,200 acre feet annually that may be used in the overlapping service areas of the two districts. ECCID has a pre-1914 water right, which is the most senior level of all appropriative water rights. The agreement also provides for an additional 4,000 acre-feet annually to be available to the District in shortage periods. The current cost for the 8,200 acre-feet of permanent entitlement water is \$32 per acre-foot and the cost of shortage year water is \$65 per acre-foot. In Calendar Year 2012, the District received 6,000 acre feet from ECCID.

In total, the District has 329,830 acre-feet of water supplies through its contract with Reclamation, water rights, and long-term agreements as shown in the following table:

Source of Supply	Acre-Feet
Reclamation CVP Contract	195,000
Los Vaqueros Water Right	95,850
Mallard Slough Water Right	26,780
ECCID	12,200
Total Available Water Supply*	329,830

* Biological opinion issued by the California Department of Fish and Wildlife currently limit annual diversions to a maximum of 222,000 acre feet.

Note that the combined annual deliveries to customers under the Reclamation CVP Contract and the Los Vaqueros Water Rights cannot exceed 195,000 acre-feet in a given year, excluding water diverted for storage into Los Vaqueros. The District's total available annual water supply is more than sufficient to meet the total demands of its service area.

California water conditions continue to be extremely difficult to predict. Following above average precipitation during December 2012, January and February 2013 were among the driest consecutive water months on record. Therefore, after two years allocating 100 percent of the District's deliveries, Reclamation has modified this year's allocation to 75 percent of the District's historic municipal and industrial use. The resulting allocation of 127,500 acre feet of CVP water, in conjunction with the District's other water supplies, will not only be sufficient to meet projected needs but will allow for continued refilling of the Los Vaqueros Reservoir to its enlarged capacity by 2015.

The following table shows annual water sales from 2009 through 2013:

DISTRICT'S TOTAL ANNUAL WATER SALES

Year	Water Sales in Acre-Feet
2009	103,758
2010	93,011
2011	94,123
2012	104,414
2013	109,600 (projected)

The District has re-evaluated the pace of economic recovery and rebound in water sales in its current Ten-Year Financial Plan, and is assuming a more pronounced long-term effect on water sales growth than assumed in the prior Ten-Year Financial Plan. The current Ten-Year Financial Plan assumes

that water sales will not return to normal levels until 2019. The associated revenue impacts are projected to be offset by acquisition of grants, containment of costs, and expansion of District services to a level sufficient to fund all planned capital projects and all operating and debt service expenditures without impacts to service levels, consistent with the Board's rate and reserve policies. Expansion of services helps to offset the District's fixed administrative costs by spreading them over a larger service base.

Water Facilities

The District's water facilities currently include pipelines, pump stations, canals, reservoirs (concrete and steel) and three treatment plants, the Bollman Water Treatment Plant, the Randall-Bold Water Treatment Plant (which is jointly owned by the District and the Diablo Water District through the Authority) and the Contra Costa Water District/Brentwood Water Treatment Plant. All District-owned and operated water treatment plants use ozone purification systems that are already compliant with upcoming EPA regulations and other governmental standards. A series of four pump stations along the Contra Costa Canal lift the water to the elevation of 124 feet after it is diverted. The Contra Costa Canal is 48 miles long and flows east to west throughout the District, terminating in the Martinez Reservoir. The Contra Costa Canal is connected to the Contra Loma Reservoir, which is used for flow regulation, peaking flows and emergency supply, while the Martinez Reservoir is terminal. The water storage capacity for the two reservoirs is approximately 888.4 million gallons (or 2,725 acre-feet).

The District constructed the Multi-Purpose Pipeline ("MPP") from 2001 to 2004 at a total final cost of \$85.7 million. The central feature of the MPP is a 21-mile treated water pipeline and a 3,200 horsepower pump station with six electric pumps. Its primary purposes are to deliver water from the Randall-Bold Water Treatment Plant in Oakley to the District's existing treated water distribution system in Concord and to enhance the District's water delivery capabilities following seismic events. By supplying treated water to the central portions of the County, the pipeline frees up capacity in the Contra Costa Canal to meet the needs of surrounding cities through approximately 2020. In addition, the MPP is used to deliver treated water to the City of Antioch and to Golden State Water Company for distribution to the community of Bay Point. A new untreated water pipeline to further supplement canal capacity is scheduled to be in service prior to 2020 to provide untreated water capacity for full build-out of the service area.

The District owns and operates the Los Vaqueros Project. Los Vaqueros facilities include a dam, a reservoir, pipelines, pumping stations, Delta intakes at Old River and Middle River (with fish screens), watershed lands, recreation facilities, and other facilities convenient or necessary in obtaining and delivering water and mitigating the environmental impacts of the overall project. The water is stored in the reservoir for delivery when water from the Delta does not meet the District's quality standards. Diverted water from the Old River and Middle River Intakes can be pumped directly to the Contra Costa Canal System or to the Los Vaqueros Reservoir, which through expansion has a storage capacity of up to 160,000 acre-feet.

The District also owns and operates a 12 million gallon per day facility to treat water for a major customer, the City of Brentwood ("Brentwood"), constructed in 2008 for a total cost of approximately \$52 million. Under a contract between the District and Brentwood, Brentwood is responsible for all costs associated with this facility. This facility is intended to serve the long-term treated water needs of Brentwood through treatment of non-Los Vaqueros water, for use in the part of Brentwood that is outside the District's service area. The plant has stand-by power generators intended to insure that plant operations will not be disrupted by potential power failures.

The Randall-Bold Water Treatment Plant commenced operations in July 1992. Untreated water is withdrawn from the Contra Costa Canal for treatment at the Randall-Bold Plant and then delivered to the Diablo Water District to serve its treated water customers. Treated water from the Randall-Bold Plant is also delivered to the District's treated water service area and to the City of Antioch and Golden State Water Company via the MPP. The Randall-Bold Plant was re-rated (i.e. modified) in 2010 to increase its capacity from 40 million to 50 million gallons per day ("mgd"). The plant has stand-by power generators intended to insure that plant operations will not be disrupted by potential power failures. The Randall-Bold Plant also serves as a secondary treated water source for the City of Brentwood.

The District owns and operates the Bollman Water Treatment Plant. The Bollman Plant has a nominal capacity of 75 mgd to serve customers within the District's treated water service area. The plant has stand-by power generators intended to insure that plant operations will not be disrupted by potential power failures. The MPP provides the capability for treated water delivery either from the Randall-Bold Plant to central Contra Costa County or from the Bollman Plant to the eastern part of the County. Treated water storage capacity is 73.6 million gallons in 41 distribution system reservoirs. The treated water is distributed to customers through 778 miles of distribution system pipelines.

Seismic Considerations

An objective of planning, designing, and operating the District's water system is to minimize potential effects on service availability and financial resources arising from natural disasters such as earthquakes. Several active fault zones are located within the San Francisco Bay Area. In recognition of this potential hazard, the District has identified faults within the service area that could impact District facilities. To minimize the effects of earthquakes, the District's water treatment and conveyance facilities are designed in accordance with Uniform Building Code and American Water Works Association recommendations as a minimum standard, consistent with industry practice. Some critical facilities are designed with additional safety factors using site-specific earthquake data from the United States Geological Survey. The District's largest facility, the Los Vaqueros Dam, has been designed using methods appropriate for potential seismic events in the region. The Los Vaqueros Dam design and operation is subject to scheduled reviews by the State Division of Safety of Dams and is consistently approved by the State.

The District has implemented a risk management and security program to identify and minimize exposures, and to improve the response to potential operational problems in the event of natural or other disasters. The District has planned, designed, constructed, and successfully tested backup conveyance facilities for pipelines located along fault zones for temporary use after an earthquake should the conveyance facilities be impacted. In addition, as part of its capital improvement program, the District has completed a seismic and reliability improvement study which established seismic design and related criteria for District facilities, as well as priorities and schedules for a series of capital projects which have improved or will improve the reliability of the District's treated and untreated water supplies. The District has completed seismic retrofits of major water facilities and is in the process of retrofitting remaining District facilities. The District also maintains an emergency operations center to coordinate operations after an emergency. To date, no District facilities have suffered any major earthquake damage.

Bay-Delta Water Quality Standards and Delta Stewardship Council

In 1995, the SWRCB adopted a Water Quality Control Plan for the Sacramento-San Joaquin Delta estuary. The Water Quality Control Plan's standards protect municipal, industrial and agricultural water uses as well as fish and wildlife resources. In January 2003, the SWRCB completed its water rights process for implementing the Water Quality Control Plan. The Water Quality Control Plan standards

have improved the quality of the District's water supply, and have improved the District's ability to divert water from the Delta, both under the District's amended Contract with Reclamation and under the District's Los Vaqueros Project water rights ("SWRCB Decision 1629").

As part of a Bay Area initiative, a consortium of 20 State and Federal agencies known as CALFED was formed in 1995. The mission of the CALFED Bay-Delta Program was to develop and implement a long-term comprehensive plan intended to restore ecological health and improve water management for beneficial uses of the Bay-Delta System. The August 2000 CALFED Record of Decision initiated detailed environmental studies of numerous projects, including storage and conveyance, drinking water quality improvement, and ecosystem restoration projects. The District has served as project manager for several CALFED projects, including studies for a potential project to enlarge the District's Los Vaqueros Reservoir up to 500,000 acre-feet. The first phase of enlargement to 160,000 acre-feet was funded by the District and completed in July 2012. Efforts are underway to fill the reservoir to its enlarged capacity by 2015. A second phase of enlargement would provide water quality and reliability benefits for the Bay Area as well as Delta environmental enhancement. Reclamation and the California Department of Water Resources ("DWR") are funding the effort to study this potential second phase of expansion and the District is the local manager under contract to Reclamation and DWR responsible for implementing the feasibility studies and environmental review. The second phase to expand the reservoir beyond 160,000 acre-feet, if pursued, is expected to be fully funded by Federal, State or other partnering agencies, not by the District.

In November 2009, California Senate Bill X7-1 established the Delta Stewardship Council ("DSC"), which assumed CALFED's Delta management activities and is responsible for developing a Delta Plan to meet the co-equal goals of providing a more reliable water supply for California and protecting, restoring, and enhancing the Delta ecosystem. That effort is resulting in a plan that includes emergency planning; Delta levee improvements to protect water, transportation, agricultural and other infrastructure in the Delta; ecosystem enhancements in the Delta and Suisun Marsh; a reduction in conflicts between water diversions and fishery flow needs; potentially new water conveyance for the Delta; an economic sustainability plan for the Delta and a plan for dealing with climate and sea level changes. The DSC approved the final draft of the Delta Plan in September 2012. The updated schedule shows adoption of the plan in 2013. The District is working with proponents of the Delta Plan to fully mitigate any potential impacts to its water quality or operations.

Water Quality and Water Quality Regulation

Water quality at the Rock Slough, Mallard Slough, Old River, and Middle River diversion points is highly variable. It is affected by seawater intrusion during periods of low fresh water inflow. It is also subject to seasonal variations due to drainage or runoff from tributary agricultural areas. The District's water supply is also vulnerable to Delta emergencies including those from chemical spills, agricultural discharge and levee failures. Sea water intrusion, which increases the mineral content of the water, occurs between summer and mid-winter, when flows in the Sacramento and San Joaquin Rivers are at a seasonal low. The mineral content at the Rock Slough intake has occasionally exceeded the EPA's secondary drinking water standards during prolonged dry periods or critically dry years. The Los Vaqueros Project added the ability for the District to divert higher quality untreated water from the Old River and Middle River Intakes. These facilities provide the District with improved water quality and assure a more reliable supply to meet existing and future needs during emergencies. In addition, the Los Vaqueros Reservoir provides storage of high-quality water that can be released to blend with lower-quality source water to meet the District's delivered water quality goals, and provides dedicated storage for emergency use. The recent expansion of the Los Vaqueros Reservoir to 160,000 acre-feet has improved the District's ability to meet these water quality goals and enhance emergency storage.

The District must comply with the growing list of drinking water standards under the 1996 amendments to the federal Safe Drinking Water Act (“SDWA”) and additional State-specific regulations developed by the California Department of Public Health (“CDPH”). The District is in full compliance with all existing applicable regulations. Furthermore, efforts to improve treatment technology, protect the source of supply and manage the water quality of the distribution system have positioned the District to be in full compliance with the long-term regulatory horizon.

The California Safe Drinking Water Act of 1996 introduced the concept of Public Health Goals (“PHGs”) to drinking water regulations. The PHGs represent non-mandatory goals based solely on public health considerations (without consideration of technical feasibility). The federal equivalent of PHGs is the Maximum Contaminant Level Goals (“MCLGs”). Both PHGs and MCLGs are listed in the District’s Consumer Confidence Report (“CCR”). California regulators use PHGs to develop or revise health-based standards known as Maximum Contaminant Levels (“MCLs”) for drinking water contaminants. As required, the District prepared and made available to the public triennial PHG reports in 2004, 2007 and 2010; the next report will be released during 2013. The SDWA requires all public water systems to prepare an annual CCR that provides in plain language an explanation of water quality and relevant health information to all consumers. The State has had a similar reporting requirement since 1989 and the District has complied with the requirement by providing a full-size report that is mailed directly to its customers each year since the inception of the requirement. Additionally, the District has posted a copy of the CCR on its website since the federal requirement first took effect.

The District is in full compliance with the EPA’s recently promulgated Long-Term 2 Enhanced Surface Water Treatment Rule (“LT2ESWTR”) and the Stage 2 Disinfectants-Disinfection By-Products Rule (“Stage 2 DBPR”). The LT2ESWTR requires a specific inactivation requirement for cryptosporidium at the District’s water treatment plants. Ahead of rule adoption, the District completed over two years of monitoring that indicated no presence of cryptosporidium in the source water. As such, the District was granted a notice of full compliance from CDPH well ahead of the dates required in the new rule. The CDPH Source Permitting for the Middle River Intake added the requirement for 24 months of cryptosporidium monitoring at both the Middle River and Old River Intakes. Monitoring was initiated in November 2012 and results indicate that all current treatment technologies utilized by the District meet cryptosporidium inactivation requirements.

The Stage 2 DBPR builds on previous rules by requiring reduced levels of disinfection byproducts, specifically total trihalomethanes (“TTHM”) and haloacetic acids (“HAA5”) at worst case locations within the distribution system. The numerical MCLs established by previous rules remain the same. This rule was developed with a monitoring plan exemption allowance for systems that have a history of disinfection byproducts at very low levels. The District effectively uses chloramination as a distribution system disinfectant which results in levels well below the MCLs and within the exemption allowance. The District was issued the monitoring plan exemption in March 2008 and began monitoring under the new rule in March 2012.

The EPA adopted a revised Total Coliform Rule in February 2013. The District actively participated in national committees focused on developing the rule revisions. The revised rule established a new maximum contaminant level for E. Coli bacteria. The District is preparing for full compliance with the revised rule due to its existing cross-connection control program, established treated water system, and water quality management plans. Compliance monitoring under the revised rule is set to begin in April 2016.

In 1992, the EPA implemented the Lead and Copper Rule (“LCR”), which required water utilities to undertake treatment for the control of lead and copper corrosion throughout their distribution

systems, including the plumbing of customers' homes. In-home tap sampling has been conducted by the District triennially since the inception of the LCR. Corrosion control is practiced through pH adjustment at the treatment plants to maintain a slightly positive corrosion index. The corrosion control practices of the District, implemented under the LCR, have proven to be effective for lead and copper as demonstrated by the District's continuing monitoring programs.

The District has been fluoridating its water for nearly four decades in response to a positive advisory vote of its consumers, well in advance of the 1995 enactment of California legislation, which conditionally required agencies with more than 10,000 water service connections to add fluoride to the drinking water they serve.

The EPA's Drinking Water Source Assessment Program required agencies with primary enforcement responsibility to conduct source water assessments for all existing surface and ground water sources, and to identify and categorize potential risks of contamination to each source of supply by mid-2003. The District voluntarily worked with the State to complete Source Water Assessments for its Delta sources and untreated water reservoirs in 2002 and 2003. Any new source of supply must be similarly assessed before being permitted for use. The District has received source permitting for the Middle River Intake through the CDPH and a Source Water Assessment was completed in January of 2012 as required for permit issuance. In addition, the District performs a detailed Watershed Sanitary Survey every five years.

The District conducts a regular unidirectional water main flushing program as preventative maintenance to remove accumulated sediment and thereby improve water quality. If not flushed out, the accumulated sediment can negatively affect water quality. The District's unidirectional program can complete a full-system flushing cycle of its nearly 700 miles of mains in a four-year period.

Future Water Supply

In April 1994, the District began a Future Water Supply Study to develop practical options to ensure a reliable water supply for District customers for the next 50 years. The Board adopted the plan in August 1996. The study was last updated in 2002 to reflect actual growth since the original plan and to incorporate changes in the plans of land use agencies in the District's service area. The updated plan is not materially different from the original study. The original study concluded that the District should: 1) expand its conservation program, 2) seek supplies through water transfers or projects that provide similar benefits to reduce the impacts of water shortages in dry years and 3) seek new supplies through water transfers to meet the needs of growth in the District's service area through 2040. The study took into account potential reliability and/or supply reductions that resulted from implementation of the 1992 Central Valley Project Improvement Act, as well as more recent changes in permits for District water operations. The District implemented the recommended plan by increasing its annual conservation budget, certifying the 1998 environmental documentation needed to deliver water for potential shortages and future growth, and negotiating contracts for water transfers. The implementation schedule is updated annually as part of the Ten-Year Capital Improvement Program and Financial Plan. Actual conservation levels have exceeded the plan goals, providing the District with additional reliability and supplies for future demand. Based on the updated plan, the District expects that its water supply will be sufficient to satisfy demand through ultimate build-out of the District's service area, which is estimated to occur in the year 2050. The next update of the Future Water Supply Study is scheduled to be completed in 2014.

WATER SYSTEM FINANCES

Ten-Year Capital Improvement Program and Financial Plan

The 2014-2023 Capital Improvement Program and Ten-Year Financial Plan (“2014 CIP”) includes 52 projects with a total estimated cost of approximately \$550.6 million. Within each program area of the Ten-Year Capital Funding Plan, projects are prioritized (in three priority levels used to reflect a range of priorities from high to low) according to a standard set of criteria that measure the relative importance of a project based upon factors such as protection of health and safety, legal requirements, relationship to District goals, and rate of return on the District's investment. The priority levels provide a basis for deciding which projects should be initiated in any given year. They also provide a basis for scheduling projects over the ten-year span of the CIP. The following is a description of the three priority levels:

Priority Level 1 - These are the highest priority capital projects. They include projects already under construction and those required by legislation, regulation, or contract, or for protecting health and safety. Priority level 1 also includes applicant and grant-funded projects.

Priority Level 2 - These are projects that provide measurable progress toward achieving the District's goals, but over which the District has a moderate level of control as to when they should be performed. Where return on investment is a determining factor, projects in this priority level are projected to have a payback of less than five years.

Priority Level 3 - These are projects that are projected to be needed, but over which the District has a significant level of control as to when they should be performed or the District is awaiting response to a grant application. Where return on investment is a determining factor, projects in this priority level generally are expected to have a payback of greater than five years.

Fiscal Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	TOTAL
District Funded/Funded by Others	\$32.3	\$27.0	\$18.6	\$17.3	\$17.8	\$19.7	\$20.5	\$36.9	\$49.3	\$27.4	\$266.8
(Priority Level 1&2)											
Debt Funded ⁽¹⁾	9.2	15.5	3.0	2.1	0.5	2.3	0.0	0.0	0.0	0.7	33.3
Total Funded	41.5	42.5	21.6	19.4	18.3	22.0	20.5	36.9	49.3	28.1	300.1
Priority Level 3 - Unfunded	0.0	3.7	20.4	10.3	55.3	71.7	50.8	20.3	17.4	0.6	250.5
Total Capital Projects	\$41.5	\$46.2	\$42.0	\$29.6	\$73.6	\$93.7	\$71.3	\$57.2	\$66.7	\$28.7	\$550.6

⁽¹⁾ The District expects to issue additional promissory notes to finance these projects through Fiscal Year 2021, at which time the District expects to issue Parity Debt to refinance the outstanding promissory notes.

Note that these are projections and actual funding and rate increases may differ materially from these projections.

Numbers may not add due to independent rounding.

The 2014 CIP assumes that priority level 1 and 2 projects totaling \$300.1 million are funded, of which \$33.3 million is anticipated to be debt funded. This total funded level is \$12.7 million higher than the 2013 CIP funded level (\$287.4 million). The increase in funded projects is primarily driven by the addition of a new project to implement water use efficiency measures in compliance with California Senate Bill X7-7 (“SBX7-7”) requiring a 20 percent reduction in per capita water use by 2020 (“20x2020”), and increased investments in modernizing the Contra Costa Canal and treated water system renewal and replacement. The CIP total is \$73.0 million more than the 2013 CIP total of \$477.6 million. The increase in the CIP total results primarily from the addition of several large, priority 3 projects that are identified as potential projects, but are not assumed to be funded by rates and charges. These priority 3 projects include recycled and potable water facilities to serve development on the Concord Naval

Weapons Station (\$48 million, funded by the project developers) and interties (\$10.8 million, funded by grants or partner agencies) that facilitate regional utilization of the expanded Los Vaqueros Reservoir.

The pace of economic recovery continues to be evaluated and updated as part of the CIP and Financial Plan. The District reduced its water sales projections slightly from the 2013 CIP to moderate the peak rebound. Near-term water sales are following closely to projections developed two years ago. Anticipated water sales in FY2020 – FY2023 continue to reflect the lower water use required under the 20x2020 legislation. Now that DWR has completed its compliance guidelines, a \$7.5 million water use efficiency placeholder project has been added to make the needed investments to achieve the required reduction. The anticipated rebound in the number of new connections has been deferred by two additional years (2019 instead of 2017) in the 2014 Financial Plan based on a review of recent housing forecasts and economic conditions. In addition, near-term treated water connections were reduced compared to the last year's CIP due to slower observed connections in the Treated Water Service Area. The rate of post-recovery connections remains at approximately 70% of the rate during the pre-recession period. The combination of reduced water sales and fewer new connections along with lower interest income assumed on the District's investments reduce revenue projections over the ten-year planning period by over \$30 million. These revenue impacts are addressed in the 2014 CIP by incorporating savings from recent debt refinancing, as well as continued productivity improvements.

The 2014 CIP reflects completion of the first phase expansion of the Los Vaqueros Reservoir to 160,000 acre-feet. Construction was completed in spring 2012 and the reservoir is currently being refilled to its new capacity. This project improves water quality and reliability of water service for existing and future customers and the 2014 CIP recognizes the allocation of these benefits to the appropriate beneficiaries. Efforts continue to develop regional partnerships to expand the potential benefits of the project to other Bay Area Agencies and the construction of new interties to facilitate water transfers are included as Priority 3 projects. The District is undertaking the Regional Capacity Study in conjunction with the City of Antioch to evaluate opportunities to improve operational efficiencies and reliability for the District and its municipal customers. The Regional Capacity Study will be completed in FY2014. Projects identified from these regional studies could be implemented on a schedule that provides immediate improvements for participating Bay Area water agencies, and would be funded by the participating agencies. The 2014 CIP reflects approximately \$11 million in added investments in water system infrastructure consistent with recently updated master plans. The most significant funding increase (\$4.2 million) is recommended for the Untreated Water Facilities Improvement Program to begin updating the Contra Costa Canal and Loop Canal. The Canal facilities were constructed in the 1930s and 1940s for water service to predominately agricultural areas. Now they serve cities and businesses in an urban setting. Funding has been added to this program to begin addressing the need to modernize the Canal and related facilities.

The District believes that all of the priority level 1 and 2 projects in the 2014 CIP can be funded and all anticipated operating costs and debt service obligations met with revenue increases over the ten-year CIP planning period that are within the Board's rate policy. The CIP assumes a maximum allowable annual revenue increase of 4.0% for planning purposes, consistent with the assumed maximum inflation rate of 4.0%. The projected annual revenue increases over ten years range between 3.5% and 3.75%. The District is able to achieve these consistently modest increases by reducing controllable operating costs, increasing competitiveness through expansion of service, obtaining outside sources of funding such as federal and state grants, productivity gains, improving support facilities and equipment, obtaining low cost financing, and use of reserves to meet the Board's reserve policy levels over the ten-year CIP. It is important to note that by the sixth year of the CIP, the 2014 CIP projects that the cost of service will be offset by anticipated revenues without any reduction in District reserve levels.

In order to take advantage of historically low interest rates the District initiated an \$80 million Extended Commercial Paper (“CP”) program in 2012. The first draw against this program was made during October 2012 for \$50 million and was used to fund completion of the LVE Project, and refinance maturing Water Revenue Notes.

The CIP also forecasts annual revenue requirements and rate increases. Consistent with Board policy, rate increases projected for the ten-year planning period are modest, incremental increases at or below the assumed rate of inflation. The District’s historical and currently projected rate increases are provided in the following table; rate adjustments in 2013 were 3.5% for both untreated and treated water. Future rate increases are subject to advance notice in compliance with Proposition 218 and require Board action. See “CONSTITUTIONAL LIMITATIONS ON TAXES AND APPROPRIATIONS – Right to Vote on Taxes Initiative.”

HISTORICAL AND PROJECTED RATE INCREASES

	<u>Historical</u>					<u>Projected – 2014 Financial Plan</u>					
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Untreated Water	4.30%	2.75%	2.90%	3.50%	3.50%	3.50%	3.75%	3.75%	3.75%	3.75%	3.75%
Treated Water	4.30%	2.75%	2.90%	3.50%	3.50%	3.50%	3.50%	3.50%	3.75%	3.75%	3.75%
Financial Plan	3.00%	3.00%	3.00%	2.50%	3.50%						

The District’s key financial planning assumptions are reviewed and concurred with annually by the Board. The CIP and Ten-Year Financial Plan serves as the District’s primary planning document for funding capital projects, operating costs, debt service and, together with the adopted budget, provides the basis for the ten-year rate projections.

Rate Adjustments

The District develops rates that include funding for mandatory and necessary projects, but not for discretionary projects. Discretionary projects may only become funded if they meet economic criteria, such as a five-year or shorter payback period subject to the funding constraints of the Ten-Year Financial Plan. The 2014 CIP includes \$300.1 million of mandatory and necessary projects. Of this amount, \$33.3 million is expected to be debt-funded. Outside-funded projects will only be undertaken if the outside funding is actually received.

Water Sales Revenue

Total operating revenue from water sales during FY2012 was \$95.4 million. Of the total, untreated water customer sales accounted for approximately \$33.4 million, with treated water sales adding another \$62.0 million. The following table sets forth a five-year history of operating revenues provided by untreated water and treated water sales.

FIVE-YEAR HISTORY OF WATER SALES REVENUES

Fiscal Year Ended June 30	<u>UNTREATED WATER</u>		<u>TREATED WATER⁽¹⁾</u>		<u>TOTAL</u>
	Water Sales (in \$000's)	% of Total Operating Revenues	Water Sales (in \$000's)	% of Total Operating Revenues	Operating Revenues (in \$000's)
2008	37,663	36.3	64,047	61.8	103,659
2009	35,349	34.9	61,517	60.8	101,257
2010	31,922	33.0	60,964	63.0	96,750
2011	31,116	33.5	57,065	61.5	92,803
2012	33,386	33.0	61,984	62.0	99,991

(1) Treated water customers are also users of untreated water; therefore, a portion of treated water rates cover untreated water costs.

Untreated Water

While the untreated-water customers account for approximately 64% of the water sales by volume in FY2012, these customers accounted for approximately 35% of water sales revenues. Untreated water municipal customers, consisting of the City of Antioch, the City of Pittsburg, Diablo Water District, the City of Martinez, Golden State Water Company and other unincorporated areas and smaller municipal water distributors, account for about 45% of untreated water revenue. Industrial customers account for approximately 46% of untreated water revenue. The District's major industrial customers include Shell and Tesoro oil refineries, Dow Chemical and USS-POSCO Industries, a sheet metal/sheet fabrication company. Demand from the existing major industrial customers is relatively constant. The balance (approximately 9%) of untreated water revenue is generated from the District's irrigation customers and other miscellaneous services.

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The following table presents the District's major untreated water customers, untreated water consumption and the estimated percentage of water sales revenue provided by such customers in FY2012.

**LARGEST UNTREATED WATER CUSTOMERS, WATER CONSUMPTION
AND WATER SALES REVENUES
Fiscal Year 2012**

<u>Major Municipal Customers:</u>	<u>Consumption</u>		<u>Revenues</u>	
	<u>Acre feet</u>	<u>Percent</u>	<u>000's</u>	<u>Percent of Total</u>
City of Antioch	9,261	16%	\$ 5,484	16%
City of Pittsburg	7,467	13%	\$ 4,406	13%
Diablo Water District	4,729	8%	\$ 2,692	8%
City of Martinez	4,492	8%	\$2,595	8%
Subtotal	25,949	45%	\$ 15,176	45%
<u>Major Industrial Customers:</u>				
Shell Refinery	12,144	22%	\$ 6,779	20%
Tesoro Refinery	9,466	17%	\$ 5,114	15%
USS/POSCO Industries	3,824	7%	\$ 2,074	6%
Subtotal	25,434	46%	\$ 13,967	41%
All Other Customers	5,061	9%	\$ 4,243	14%
Total	56,444	100%	\$ 33,386	100%

Treated Water

The treated water customers generated water sales revenues of about \$62.0 million in FY2012. The following table shows the number of active treated water accounts, metered water consumption by type of treated water customers and the estimated percentage of water sales revenues provided by such customers in FY2012.

**TREATED WATER
Active Accounts, Water Consumption by Type of Customer and Water Sales Revenues
Fiscal Year 2012**

	<u>ACTIVE ACCOUNTS</u>		<u>METERED CONSUMPTION</u>		<u>REVENUES</u>	
	<u>Number</u>	<u>Percent</u>	<u>Acre-feet</u>	<u>Percent</u>	<u>\$ in 000's</u>	<u>% of Treated Water Sales Revenues</u>
Residential	56,154	92%	24,522	79%	47,376	76%
Commercial & Industrial	3,161	5%	4,859	16%	8,650	14%
Public Facilities	230	0%	850	3%	5,203	8%
Municipal & Other	1,562	3%	625	2%	755	1%
Total	61,107	100%	30,856	100%	61,984	100%

The following table presents a five-year record through FY2012 of total and average daily gross consumption in million gallons per day by both untreated water and treated water customers of the District.

DAILY GROSS WATER CONSUMPTION

All Customer Categories
(millions of gallons)

Fiscal Year	Total	Average Per Day
2008	37,527	103
2009	37,317	102
2010	30,122	83
2011	29,979	82
2012	32,770	90

Other Revenues

The District is expressly empowered under the County Water District Law to levy taxes on all taxable property within its boundaries for the purpose of paying its voter-approved indebtedness. The tax has been levied annually since prior to voter approval of Proposition 13 in 1978. The Land Levy receipts are used to pay Federal obligations for operations and maintenance as required under the District’s CVP water service contract with Reclamation. Contributions in aid of construction, which includes connection fees and other developer contributions, composed approximately 6.0% of the District’s total revenues in FY2012. These contributions are used to pay for the capital costs associated with providing for growth.

Rates and Charges

The District’s Board has the power and the authority under State law to establish water rates, fees and charges for service without the oversight or review of the California Public Utilities Commission (“CPUC”) or any other governmental body. The District’s rates and charges are established by regulations adopted by the District’s Board and reviewed in detail on an annual basis. The rates and charges become effective upon adoption or at a specified future date. Current rates and charges are provided in the following table. The District has the right to refuse or terminate water service to delinquent customers and to require full payment of delinquent amounts and reconnection fees to resume service.

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The District establishes and collects rates and charges for both its treated water customers and its untreated water customers. The District bills its metered untreated water customers monthly and its treated water customers on a bimonthly basis. The District considers its rates of payment delinquency, service discontinuance for non-payment, and write-offs for uncollectible accounts to be very low, and in the last five years the percentage of uncollectible revenues has been greatly reduced. Uncollectible revenues by fiscal year have been:

UNCOLLECTIBLE REVENUES

Fiscal Year Ended June 30	Uncollectible Revenues	Percent of Water Revenues
2008	\$ 221,525	0.2
2009	\$ 277,364	0.3
2010	\$ 330,051	0.3
2011	\$220,520	0.3
2012	\$244,718	0.4

TREATED WATER RATES & CHARGES

Quantity Charge (per hundred cubic feet)	\$3.1574
Service and Demand Charge	The daily charge for water service is assessed by meter size. It ranges from \$0.5609 for a 5/8" meter to \$120.5935 for a 12" meter.
Energy Surcharge	An energy surcharge per hundred cubic feet of water use is assessed by zone, and ranges from \$0.0767 in Zone 1 to \$0.7545 in Zone 8.
Fire Protection Surcharge	A surcharge to defray the cost of furnishing water to publicly owned fire hydrants for firefighting is assessed by meter size. It ranges from \$0.0323 per day for a 5/8" meter to \$6.9445 per day for a 12" meter.

UNTREATED WATER RATES & CHARGES

Quantity Charge (per thousand gallons)	\$1.8158
Service Charge	\$176.91
Demand Charge	A monthly demand charge based upon maximum day and maximum hour usage is assessed on those customers with recording water meters. The charge ranges from \$1.6064 to \$2.1802 per gallon per minute.

CHARGES FOR NEW SERVICE

	Facilities Reserve Charges		Meter Charge
	Treated Water ⁽¹⁾	Untreated Water ⁽²⁾	(Treated Water)
5/8" meter	\$ 18,334	\$ 4,884	\$68.84
3/4" meter	27,517	7,327	129.15
1" meter	45,861	12,211	170.31
1-1/2" meter	91,722	24,422	Cost ⁽³⁾
2" meter	146,756	39,076	Cost ⁽³⁾
Larger and dual meters	Based on size	Based on size	Cost ⁽³⁾

⁽¹⁾ Including untreated water component.

⁽²⁾ Amounts for Service Area A used as an example.

⁽³⁾ Equals the District's actual cost of materials and installation, including usual overhead charge. Note that a charge of \$44.00 will be made for each installation (regardless of size) made at any time other than when the service line is installed.

Comparison of Average Annual Treated Water Service Charges

The District's current average annual treated water service charge for single-family residential service is \$766.53. The following table sets forth a list of some other major water agencies and municipalities in Northern California and their most recently available average annual water service charges from 2012. The figures are based on an average household using 350 gallons per day.

Water Supplier	Average Annual Household Water Service Charge
Golden State Water Co. (Bay Point)	\$1,055.06
City of Martinez	920.86
Marin Municipal Water District	795.17
City of Pittsburg	771.17
Contra Costa Water District	766.53
East Bay Municipal Utility District	754.89
City of Brentwood	605.70
Diablo Water District	576.18
City of Antioch	565.93

Outstanding Indebtedness

See "-- Outstanding Water Revenue Bonds and Other Parity Debt" and "-- Other Debt" under "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES R BONDS" above.

Historical Financial Information

The District's operations are accounted for under its Enterprise Fund, which includes the District's water supply and treated water operating funds and the Contra Costa Water Authority. The District also maintains separate Retirement and Other Post-Employment Benefit Plans that are accounted for separately from the District's Enterprise Fund activities.

The District's accounting policies conform to the generally accepted accounting principles for water utilities. The accounts are maintained on an accrual basis in accordance with the Uniform System

of Accounts for Water Utilities followed by investor-owned and major municipally owned water utilities. Significant inter-fund transactions (including water sales) are eliminated.

The District's audited financial statement for the fiscal year ended June 30, 2012 (the "Audited Financial Statement") is included as Appendix A. The Fiscal Year 2012 Audited Financial Statement was reported on by Macias Gini and O'Connell LLP, independent auditors (the "Auditors"). The letter of the Auditors concludes that the Audited Financial Statement presents fairly in all material respects, the respective financial position of the business-type activities, each major fund, and the fiduciary funds of the District at June 30, 2012 and the respective changes in the financial position and cash flows, where applicable, thereof for the year then ended, in conformity with generally accepted accounting principles in the United States of America. The Audited Financial Statement should be read in its entirety. The Auditors have not reviewed or audited this Official Statement.

The following table shows revenues, maintenance and operation costs, and debt service coverage ratios for the five fiscal years ended June 30, 2008 through June 30, 2012. The following financial results have been presented in conformity with requirements of the Resolution.

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**SCHEDULE OF DEBT SERVICE COVERAGE
(PER RESOLUTION)
(in millions of dollars)**

	Fiscal Year ended June 30				
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
OPERATING REVENUES:					
Untreated Water Sales	\$37.7	\$35.4	\$31.9	\$31.1	\$33.4
Treated Water Sales	64.0	61.5	61.0	57.1	62.0
Reimbursement of Operating Expenses	1.8	4.2	3.7	4.5	4.4
Other Revenues (Misc. Service Charges)	0.1	0.2	0.2	0.1	0.1
Total Operating Revenues	\$103.6	\$101.3	\$96.8	\$92.8	\$99.9
NON-OPERATING REVENUES:					
Contributions in Aid of Construction ⁽¹⁾	\$12.4	\$58.6	\$6.6	\$6.1	\$7.7
Grants, Rents & Other Revenues ⁽²⁾	7.4	14.5	20.6	36.5	14.9
Interest Income	11.7	9.7	6.3	4.4	3.4
Property Taxes / Land Levy Taxes ⁽³⁾	N/A	N/A	N/A	N/A	N/A
Total Non-Operating Revenues	\$31.5	\$82.8	\$33.5	\$47.0	\$26.0
Gross Revenues	\$135.1	\$184.1	\$130.3	\$139.8	\$125.9
OPERATING AND MAINTENANCE EXPENSES:					
Source of Supply	\$7.4	\$6.7	\$5.7	\$5.4	\$6.4
Water Treatment	7.7	8.3	7.7	7.8	7.9
Pumping	4.6	4.6	4.2	4.5	8.0
Transmission and Distribution	1.6	1.2	1.0	1.1	1.0
Other Operation Expenses	39.4	43.4	41.7	41.0	40.0
Operations (before depreciation and debt service)	\$60.7	\$64.2	\$60.3	\$59.8	\$63.3
Less: Expenses Paid with Property Taxes ⁽³⁾	(2.5)	(2.4)	(1.9)	(2.1)	(2.8)
Total Expenses	\$58.2	\$61.8	\$58.4	\$57.7	\$60.5
Net Revenues Available for Debt Service	\$76.9	\$122.3	\$71.9	\$82.1	\$65.4
Total Parity Debt Service	42.8	42.2	43.8	44.0	42.6
Debt Service Coverage Ratio – Parity Debt Only	1.80x	2.89x	1.64x	1.86x	1.54x

(1) Increase in contributions in Aid of Construction in FY 2009 was due to the one-time reimbursement from the City of Brentwood for the District's construction of the Contra Costa Water District/City of Brentwood Water Treatment Plant.

(2) Reflects receipt of \$26 million in grant funding in FY 2011 from the State through Proposition 84 for repayment of costs related to the construction of the District's Middle River Intake.

(3) Property taxes and land levy taxes are not included in Net Revenues when calculating the Debt Service Coverage Ratio; accordingly, expenses paid with property taxes are also excluded.

The following table presents certain financial information for the Fiscal Years ended June 30, 2011 and June 30, 2012, together with unaudited financial information for the three quarters ended March 31, 2012, and March 31, 2013. The information has been prepared on an accrual basis.

SUMMARY OF REVENUES, EXPENSES & CHANGES IN NET ASSETS (in millions of dollars)	Fiscal Years Ended June 30 (audited)		Three Quarters Ended March 31 (unaudited)	
	2011	2012	2012	2013
REVENUES:				
Untreated Water Sales	\$31.1	\$33.4	\$24.2	\$26.4
Treated Water Sales	57.1	62.0	48.0	50.5
Reimbursement of Operation Expenses	4.5	4.4	3.0	3.3
Other Operating Revenues ⁽¹⁾	0.1	0.1	0.1	0.1
Total Operating Revenues	\$92.8	\$99.9	\$75.3	\$80.3
Non-Operating Revenues:				
Contributions in Aid of Construction	\$6.1	\$7.7	\$4.8	\$5.2
Grants, Rents & Other Revenues	35.4	14.9	12.4	3.6
Investment Income	4.4	3.4	2.7	2.0
Investment FMV Adjustment	(0.1)	0.9	(1.6)	(1.2)
Property Taxes/Land Levy	2.9	3.6	2.0	2.1
Total Non-Operating Revenue	\$48.6	\$30.5	\$20.3	\$11.7
Total Revenues	\$141.4	\$130.4	\$95.6	\$92.0
EXPENSES:				
Source of Supply	\$5.4	\$6.4	\$4.7	\$5.1
Water Treatment	7.8	7.9	5.5	5.2
Pumping	4.5	7.9	5.7	6.7
Transmission and Distribution	1.1	1.0	0.7	0.6
Maintenance	16.8	16.6	11.9	12.2
Public Information & Customer Service	3.8	3.9	2.7	3.1
Administration & General	20.4	19.5	14.0	17.6
Depreciation and Amortization	27.1	29.1	21.5	20.9
Total Operating Expenses	\$87.0	\$92.4	\$66.7	\$71.4
Non Operating Expenses:				
Interest Expense	\$24.0	\$20.8	\$15.5	\$13.9
Total Non-Operating Expenses	\$24.0	\$20.8	\$15.5	\$13.9
Total Expenses	\$111.0	\$113.2	\$82.2	\$85.3
Changes in Net Assets	\$30.4	\$17.3	\$13.4	\$6.7
Net Assets, Beginning of Year	\$833.8	\$864.2		
Net Assets, End of Year	\$864.2	\$881.5		

Note: Amounts in columns may not equal totals due to rounding.

(1) Other revenues for FY2013 include a \$1.6 million settlement for unwinding two Guaranteed Investment Contracts and misc. service charges, including encroachments and royalties.

District Management's Discussion on Financial Operations

The District implemented a Conservation Program in May 2010 to encourage continued efficient and reasonable water use, while striving for the elimination of water waste. This was followed by a wet winter, which allowed excellent water storage reserves at Shasta Reservoir, the District's primary water source. The result was that in both 2011 and 2012 the District had available its full CVP allocation of 195,000 acre feet for the year. While 2013 has been a relatively dry year, the water reserves currently in place leave the District well positioned to meet customer and operating needs for the coming year.

Three years of drought, significant conservation efforts, as well as a sustained economic downturn have presented considerable challenges to District finances. However, sound financial planning and conservative strategies initiated by the Board almost 20 years ago have allowed the District to prudently navigate recent uncertainties. The District remains well positioned to deal with the near-term issues connected with continuing economic recovery and the regulatory mandates that remain on the horizon. The District utilizes a rolling Ten-Year CIP, which allows control of spending and prioritization of needs as economic and revenue situations dictate. The District's historically conservative strategies and financial planning have allowed the District to meet its obligations while avoiding the need to raise rates beyond planned levels.

The District ended FY2012 with net revenues (revenues less than expenditures) \$3.1 million higher than it had projected in its ten-year financial plan. Despite a \$7.2 million revenue shortfall, the District was able to exceed fiscal projections through the implementation of cost-saving initiatives and productivity improvements.

FY2012 revenues, net of debt-funded capital, totaled \$130.4 million. Categories that came in under budget, with the amount thereof shown in parentheses, include: water sales (\$3.2 million), facility reserve charges (a component of grants, rents and other revenues) (\$3.1 million), interest income (\$3.1 million), and cost reimbursement from Diablo Water District (\$0.1 million) for its share of the operating costs for the Randall-Bold Water Treatment Plant. The negative results were partially offset by the receipt of \$0.4 million in higher property tax revenue and \$1.9 million in unbudgeted miscellaneous revenues. The \$3.2 million shortfall in water sales was due primarily to the increased precipitation during the spring season and the good water quality conditions in the Delta, which allowed the City of Antioch to utilize its river supply and thereby reduce purchases of untreated water from the District. Challenging economic conditions contributed to lower than planned facility reserve charges and investment earnings. The \$1.9 million of unanticipated miscellaneous revenue consists of settlement payments received from GE Capital and the San Luis Delta Mendota Water Authority.

Cost containment efforts were the primary driver of FY2012 operating savings. Reductions were realized across all departments and expenditure categories due to successful cost containment efforts. These savings were driven by productivity improvements and reduced costs for water purchases and treatment chemicals. Revenue funded capital projects contributed to the savings, primarily due to various projects being completed under budget.

FY2013 Year-End Projections

During FY2013, the District anticipates an increase in operating revenue, as supported by actual revenues received through March 31, 2013. This is led by the 10% annual increase in water consumption as customer usage continues to increase as we move further away from the impacts of the drought and economic downfall. In addition, the recovery in the housing market has resulted in increased Facility Reserve Charge revenue for new connections. To manage and avoid potential shortfalls the District is

continuing its efforts toward cost containment, pursuing outside revenues, and securing competitive bids on capital projects. During FY2013, the District has focused on refilling the expanded Los Vaqueros Reservoir. Filling to the increased 160 thousand acre foot capacity is scheduled to be completed in FY2014. Therefore, additional expenditures for water purchases and pumping add approximately \$5.0 million to the projections in these two years.

Projected Operating Results and Debt Service Coverage

The following table projects the District's operating results and debt service coverage for the fiscal years ending June 30, 2013 to 2017. The financial forecast represents the District's estimate of projected financial results based on the assumptions set forth in the footnotes to the chart set forth below. Such assumptions are material in development of the District's financial projections; variations in the assumptions may produce substantially different financial results. Actual operating results achieved during the projection period may vary from those presented in the forecast and such variations may be material.

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PROJECTED REVENUES, OPERATIONS & MAINTENANCE AND DEBT SERVICE
(in millions of dollars)⁽¹⁾

	2013	2014	2015	2016	2017
OPERATING REVENUES:					
Untreated Water Sales	\$37.2	\$40.8	\$42.6	\$45.1	\$46.9
Treated Water Sales	68.1	73.5	79.1	83.7	87.0
Reimbursement of Operating Expenses	5.8	6.3	6.3	6.4	6.7
Other Revenues	0.1	0.1	0.1	0.1	0.1
Total Operating Revenues	\$111.2	\$120.7	\$128.1	\$135.3	\$140.7
NON-OPERATING REVENUES:					
Contributions in Aid of Construction	\$7.6	\$16.1	\$16.9	\$12.5	\$12.6
Grants, Rents & Other Revenues ⁽²⁾	3.8	1.1	1.1	1.2	1.2
Interest Income	3.0	2.6	3.8	3.8	3.7
Property Taxes / Land Levy Taxes ⁽³⁾	N/A	N/A	N/A	N/A	N/A
Total Non-Operating Revenues	\$14.4	\$19.8	\$21.8	\$17.5	\$17.5
 Gross Revenues	 \$125.6	 \$140.5	 \$149.9	 \$152.8	 \$158.2
OPERATING & MAINTENANCE EXPENSES:					
Operations (before depreciation and debt service) ⁽⁴⁾	\$73.4	\$79.8	\$88.9	\$94.1	\$98.4
Less: Expenses Paid with Property Taxes ⁽³⁾	-3.6	-3.3	-3.3	-3.3	-3.4
Total Expenses	\$69.8	\$76.5	\$85.6	\$90.8	\$95.0
 Net Revenues Available for Debt Service	 \$55.8	 \$64.0	 \$64.3	 \$62.0	 \$63.2
Total Parity Debt Service	38.4	32.0	34.6	38.3	44.0
Debt Service Coverage Ratio – Parity Debt Only	1.45x	2.00x	1.86x	1.62x	1.44x
 <i>UNITS OF WATER SOLD (thousand acre-feet)⁽⁵⁾</i>	 95.2	 99.2	 102.9	 105.2	 105.8

- (1) Projections for FY2013 are based on actual results through March 31, 2013; FY2014 projections are based on the adopted budget with minor adjustments to reflect higher revenues (contributions in aid of construction) and higher interest expense. FY2015-FY2017 projections are based on the 2014-2023 Capital Improvement Program and Ten-Year Financial Plan (2014 CIP) and reflect projected rate increases. See table entitled “HISTORICAL AND PROJECTED RATE INCREASES” under the caption “– Ten-Year Capital Improvement Program and Financial Plan” above.
- (2) FY2013 includes \$1.6 million settlement for unwinding two Guaranteed Investment Contracts.
- (3) Property taxes and land levy taxes are not included in Net Revenues when calculating the Annual Debt Service Coverage Ratio; accordingly, expenses paid with property taxes are also excluded.
- (4) FY2015-2017 operating expenses reflect the 2014 CIP projections and inflation assumptions of 3.0% in FY14 and FY15, and 4.0 annually thereafter. Refilling of the Los Vaqueros Reservoir will be completed in FY2014; it is assumed that this will be accomplished in part with lower-cost Los Vaqueros Water Rights water, and not solely with higher-cost Central Valley Project water.
- (5) The projection for units of water sold, including the FY2013 estimate, reflects projections from the 2014 CIP. (These figures do not include consumption wheeled on behalf of the City of Brentwood, estimated at 7,300 acre feet in FY2013.)

CONSTITUTIONAL LIMITATIONS ON TAXES AND APPROPRIATIONS

Tax Limitations - Proposition 13

Article XIII A of the California Constitution, commonly known as “Proposition 13”, provides that each county will levy the maximum *ad valorem* property tax permitted by Proposition 13 and will distribute the proceeds to local agencies in accordance with an allocation formula based, in part, on pre-Proposition 13 *ad valorem* property tax rates levied by local agencies.

Article XIII A limits the maximum *ad valorem* tax on real property to 1% of “full cash value”, which is defined as “the County Assessor’s valuation of real property as shown on the 1975/76 tax bill under ‘full cash value’, or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment.” The full cash value may be adjusted annually to reflect inflation, at a rate not to exceed 2% per year, or decreases in the consumer price index or comparable local data, or declining property value caused by damage, destruction, or other factors.

Article XIII A exempts from the 1% tax limitation any taxes to repay indebtedness approved by the voters prior to July 1, 1978, and requires a vote of two-thirds of the qualified electorate to impose special taxes, or any additional *ad valorem*, sales or transaction taxes on real property. In addition, Article XIII A requires the approval of two-thirds of all members of the State Legislature to change any State laws resulting in increased tax revenues. On June 3, 1986, California voters approved an amendment to Article XIII A of the California Constitution to allow local governments and school districts to raise their property tax rates above the constitutionally mandated 1% ceiling for the purpose of paying debt service on certain new general obligation debt issued for the acquisition or improvement of real property and approved by two-thirds of the votes cast by the qualified electorate.

The effect of Article XIII A on the District’s finances has been to restrict *ad valorem* tax revenues for general purposes to the statutory allocation of the 1% levy while leaving intact the power to levy *ad valorem* taxes in whatever rate or amount may be required to pay debt service on its outstanding general obligation bonds.

State and local government agencies in California and the State of California itself are subject to annual “appropriation limits” imposed by Article XIII B of the State Constitution. Article XIII B prohibits government agencies and the State from spending “appropriations subject to limitation” in excess of the appropriations limit imposed. “Appropriations subject to limitation” are authorizations to spend “proceeds of taxes”, which consist of tax revenues, certain State subventions and certain other funds, including proceeds from regulatory licenses, user charges, or other fees to the extent that such proceeds exceed “the cost reasonably born by such entity in providing the regulation, product or service”. No limit is imposed on appropriations of funds which are not “proceeds of taxes”, such as debt service on indebtedness existing or authorized before January 1, 1979, or subsequently authorized by the voters, appropriations required to comply with mandates of courts or the Federal government, reasonable user charges or fees and certain other non-tax funds. The District believes that the appropriations of the District are excluded from the limitations of Article XIII B under this provision.

Court Challenges to Proposition 13

The U.S. Supreme Court struck down as a violation of equal protection certain property tax assessment practices in West Virginia, which had resulted in vastly different assessments of similar properties. Since Proposition 13 provides that property may only be reassessed up to 2% per year, except upon change of ownership or new construction, recent purchasers may pay substantially higher property taxes than longtime owners of comparable property in a community. The Supreme Court in the West Virginia case expressly declined to comment in any way on the constitutionality of Proposition 13.

Based on this decision, however, property owners in California brought three suits challenging the acquisition value assessment provisions of Proposition 13. All three suits were dismissed by the trial court and subsequently appealed. The State Courts of Appeal upheld Proposition 13 in two cases in December 1990 and the third case in April 1991. On February 28, 1991, the California Supreme Court declined to hear the appeals of the two cases decided in December 1990. The two cases were appealed to

the United States Supreme Court. On June 3, 1991, the United States Supreme Court agreed to hear *R.H. Macy & Co. v. Contra Costa County*. Subsequently, R.H. Macy & Co. withdrew its appeal. On June 18, 1992, the United States Supreme Court decided the second case, *Nordlinger v. Hahn*, (505 U.S. 1), holding that the acquisition value assessment provisions of Proposition 13 did not violate the Equal Protection Clause of the United States Constitution.

If the assessment rules of Article XIII A are at some point struck down, it is not known what rules would become operative. Further legislation would then be likely. The District cannot predict what impact any of these developments might have on the District or on the District's ability to meet its obligations.

In November 1986, California voters approved a statutory initiative ("Proposition 62") that established certain voter requirements in order for local governments, such as cities, counties, and districts to impose or raise taxes. Various provisions of Proposition 62 were declared unconstitutional at the appellate court level. On September 28, 1995, the California Supreme Court, in *Santa Clara County Local Transportation Authority v. Guardino*, 11 Cal. 4th 220, 45 Cal.Rptr.2d 207, upheld the constitutionality of the portion of Proposition 62 requiring a two-thirds vote in order for a local government or district to impose a special tax, and by implication upheld a parallel provision requiring a majority vote in order for a local government or district to impose any general tax. The District has not imposed any taxes subject to the provisions of Proposition 62.

Right to Vote on Taxes Initiative

General. An initiative measure entitled the "Right to Vote on Taxes Act" (the "Proposition 218") was approved by the voters of the State of California at the November 5, 1996 general election. Proposition 218 added Article XIII C and Article XIII D to the California Constitution. According to the "Title and Summary" of Proposition 218 prepared by the California Attorney General, Proposition 218 limits "the authority of local governments to impose taxes and property-related assessments, fees and charges."

Article XIII C. Article XIII C provides that the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge and that the power of initiative to affect local taxes, assessments, fees and charges shall be applicable to all local governments. Article XIII D defines the terms "fee" and "charge" to mean "any levy other than an ad valorem tax, a special tax or an assessment, imposed by an agency upon a parcel or upon a person as an incident of property ownership, including user fees or charges for a property-related service." A "property related service" is defined as "a public service having a direct relationship to property ownership." In the case of *Bighorn-Desert View Water Agency v. Verjil*, 39 Cal.4th 205, 46 Cal.Rptr.3d 73 ("*Bighorn*") in July 2006, the Supreme Court held that charges for ongoing water delivery are also "fees" within the meaning of Section 3 of Article XIII C, which establishes that the initiative power of the electorate "shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge." Therefore, the Court held, Article XIII C 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 stated that it was *not* determining whether the electorate's initiative power is subject to certain statutory provisions applicable to the Bighorn-Desert View Water Agency that require water service charges to be set at certain minimum rates to cover operations and maintenance costs, debt service and other costs.

No courts have ruled on the question of whether Article XIII C grants to the voters the power to repeal or reduce rates and charges in a manner or to an extent which would impair the District's

contractual obligations, including but not limited to, an obligation to pay installment payments. Courts have held under certain circumstances that the Contracts Clause of the United States Constitution prohibits public agencies from enacting laws that impair obligations of the public agencies under their own contracts. There can be no assurance of the availability of particular remedies adequate to protect the interests of Bond Owners. Remedies available to Bond Owners in the event of a default are dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time-consuming to obtain.

Certain aspects of the impact of Proposition 218 in these and other areas remain unclear as court decisions interpreting the application of Proposition 218 to various circumstances continue to be published on a frequent basis.

Article XIID. Article XIID defines the terms “fee” and “charge” to mean “any levy other than an *ad valorem* tax, a special tax or an assessment, imposed by an agency upon a parcel or upon a person as an incident of property ownership, including user fees or charges for a property-related service.” A “property-related service” is defined as “a public service having a direct relationship to property ownership.” Article XIID further provides that reliance by an agency on any parcel map (including an assessor’s parcel map) may be considered a significant factor in determining whether a fee or charge is imposed as an incident of property ownership. Article XIID requires that any agency imposing or increasing any property-related fee or charge must provide written notice thereof to the record owner of each identified parcel upon which such fee or charge is to be imposed and must conduct a public hearing with respect thereto. The proposed fee or charge may not be imposed or increased if a majority of owners of the identified parcels file written protests against it. As a result, if and to the extent that a fee or charge imposed by a local government is ultimately determined to be a “fee” or “charge” as defined in Article XIID, the local government’s ability to increase such fee or charge may be limited by a majority protest.

In addition, Article XIID includes a number of limitations applicable to existing fees and charges, including provisions to the effect that (i) revenues derived from the fee or charge shall not exceed the funds required to provide the property-related service, (ii) such revenues shall not be used for any purpose other than that for which the fee or charge was imposed, (iii) the amount of a fee or charge imposed upon any parcel or person as an incident of property ownership shall not exceed the proportional cost of the service attributable to the parcel and (iv) no such fee or charge may be imposed for a service unless that service is actually used by, or immediately available to, the owner of the property in question. The District believes that its rates and charges comply with all of the foregoing substantive provisions of Article XIID. Property-related fees or charges based on potential or future use of a service are not permitted. Based upon the California Court of Appeals decision in *Howard Jarvis Taxpayers Association v. City of Los Angeles*, 85 Cal. App. 4th 79, 101 Cal.Rptr.2d 905 (2000), it was generally believed that Article XIID did not apply to charges for metered water, which had been held to be commodity charges related to consumption of the service, not property ownership. In a decision rendered in February 2004, the California Supreme Court in *Richmond et al. v. Shasta Community Services District*, 32 Cal.4th 409, 9 Cal. Rptr. 3d 121 (“*Richmond*”), upheld a Court of Appeals decision that water connection fees for new service were not property-related fees or charges subject to Article XIID, but stated, in a portion of the decision not necessary to its decision (and therefore “dicta”), that “water service fees, being fees for property related services, may be fees or charges within the meaning of Article XIID.” In *Bighorn*, the Supreme Court confirmed this dicta in *Richmond*, holding that fees for ongoing water service through an existing connection were held to be property-related fees and charges subject to the procedural and substantive provision of Article XIID. The substantive requirements of Article XIID have been applicable since it was approved by the voters, but the applicability of the procedural requirements, such as providing written notice to all ratepayers or property owners at least 45

days in advance of a hearing on any rate increase, was in doubt until the *Bighorn* decision was rendered in 2006. The District has complied with all notice provisions and hearing requirements and does not expect these procedures to have, and to date these procedures have not had, any significant impact on the District's finances or operations.

Supermajority Vote to Pass New Taxes and Fees Initiative

On November 2, 2010, California voters approved Proposition 26, the so-called "Supermajority Vote to Pass New Taxes and Fees Act." Section 1 of Proposition 26 declares that Proposition 26 is intended to limit the ability of the State Legislature and local government to circumvent existing restrictions on increasing taxes by defining the new or expanded taxes as "fees." Proposition 26 amended Articles XIII A and XIII C of the State Constitution. The amendments to Article XIII A limit the ability of the State Legislature to impose higher taxes (as defined in Proposition 26) without a two-thirds vote of the Legislature.

Article XIII C Amendments. Proposition 26's amendments to Article XIII C broadly define "tax," but specifically exclude, among other things:

- "(1) A charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege.
- (2) A charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product.
- ...
- (6) A charge imposed as a condition of property development.
- (7) Assessments and property-related fees imposed in accordance with the provisions of Article XIII D."

The District believes its water rates and charges do not constitute "taxes" under Article XIII C as revised by Proposition 26 because, as described in subsection 1(e)(7) of Article XIII C, they are "property-related fees imposed in accordance with the provisions of Article XIII D" (and are also charges for a "property-related service" as defined in subsection 2(g) of Article XIII D) and because, as described in subsection 1(e)(2) of Article XIII C, they are charged for water service, "a specific government service or product provided directly to the payor that is not provided to those not charged."

The District believes its facilities reserve charge is not a "tax" as defined by Proposition 26 because it is a charge that is imposed only on individuals who request a new service connection as a condition of initiating new water and, as described in subsection 1(e) of Article XIII C, it is imposed (1) "for a specific benefit or privilege [of obtaining new water service] conferred or privilege granted directly to the payor that is not provided to those not charged" and/or (2) "for a specific government service or product [a time-limited share of capacity in the District's water system] provided directly to the payor that is not provided to those not charged, and which does not exceed [either] the reasonable costs" of conferring the benefit or privilege and/or the reasonable costs of providing the service or product.

Future Initiatives

Articles XIII A, XIII B, XIII C, and XIII D, and the subsequent amendments to Articles XIII A and XIII C approved through Proposition 26, were adopted as measures that qualified for the ballot and were approved by the voters pursuant to California's initiative process. From time to time other initiatives could be proposed and adopted affecting the District's revenues or ability to increase revenues.

RATINGS

Standard & Poor's Ratings Service and Fitch Ratings have assigned the Series R Bonds with ratings of "AA+" and "AA+," respectively. Certain information was supplied by the District to the rating agencies to be considered in evaluating the Series R Bonds. Such ratings reflect only the views of the rating agencies, and any explanation of the significance of such ratings and any ratings on any of the outstanding indebtedness of the District should be obtained from such rating agencies. There is no assurance that any such rating will be retained for any given period of time or that any such rating will not be revised, either downward or withdrawn entirely by the rating agency furnishing the same if, in its judgment, circumstances so warrant. The District undertakes no responsibility to oppose any such revision or withdrawal. Any downward revision or withdrawal of a rating may have an adverse effect on the market price of the Series R Bonds.

INDEPENDENT ACCOUNTANTS

The District's audited financial statement for the fiscal year ended June 30, 2012 (the "Audited Financial Statement"), is included as Appendix A. The Fiscal Year 2012 Audited Financial Statement was reported on by Macias, Gini & O'Connell, independent auditors (the "Auditors"). The letter of the Auditors concludes that the Audited Financial Statement presents fairly in all material respects, the respective financial position of the business-type activities, each major fund, and the fiduciary funds of the District at June 30, 2012 and the respective changes in the financial position and cash flows, where applicable, thereof for the year then ended, in conformity with generally accepted accounting principles in the United States of America. The Audited Financial Statement should be read in its entirety. The Auditors have not reviewed or audited this Official Statement.

TAX MATTERS

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

To the extent the issue price of any maturity of the Series R Bonds is less than the amount to be paid at maturity of such Series R Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series R Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Series R Bonds which is excluded from gross income for federal income tax purposes and State of

California personal income taxes. For this purpose, the issue price of a particular maturity of the Series R Bonds is the first price at which a substantial amount of such maturity of the Series R Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Series R Bonds accrues daily over the term to maturity of such Series R Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Series R Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Series R Bonds. Beneficial Owners of the Series R Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series R Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Series R Bonds in the original offering to the public at the first price at which a substantial amount of such Series R Bonds is sold to the public.

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

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Series R Bonds. The District has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Series R Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Series R Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series R Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel’s attention after the date of issuance of the Series R Bonds may adversely affect the value of, or the tax status of interest on, the Series R Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

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

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Series R Bonds to be subject, directly or indirectly, to federal income taxation, to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. As one example, the

Obama Administration's proposed 2014 budget includes a legislative proposal which, for tax years beginning after December 31, 2013, would limit the exclusion from gross income of interest on obligations like the Series R Bonds to some extent for taxpayers who are individuals and whose income is subject to higher marginal income tax rates. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Series R Bonds. Prospective purchasers of the Series R Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Special Tax Counsel is expected to express no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Series R Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the District, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The District has covenanted, however, to comply with the requirements of the Code.

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

ABSENCE OF LITIGATION

There is no action, suit or proceeding known to the District or its counsel to be pending or threatened, restraining or enjoining the execution or delivery of the Series R Bonds, 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.

There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body pending or, to the best knowledge of the District, threatened against the District contesting or affecting the ability of the District to collect amounts from which the Series R Bonds are payable, contesting the District's water rights or which would have a material adverse effect on the District, including the District's ability to make payments on the Series R Bonds.

CONTINUING DISCLOSURE

The District has covenanted to provide certain financial information and operating data relating to the District by not later than nine months after the end of the District's fiscal year (presently June 30) in each year, commencing with its report for the 2012/2013 fiscal year (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events. The Annual Reports and the notices of enumerated events will be filed by the Dissemination Agent on behalf of the District with the Electronic

Municipal Market Access system (referred to as “EMMA”) of the Municipal Securities Rulemaking Board. The specific nature of the information to be contained in the Annual Report or the notices of specified events is summarized in APPENDIX E – “FORM OF CONTINUING DISCLOSURE AGREEMENT.” The District has never failed to comply in all material respects with any previous undertaking with regard to Rule 15c2-12 promulgated by the Securities and Exchange Commission to provide financial information and data, operating data or material events. The District provided its 2007/2008 fiscal year Annual Report relating to certain prior bonds to the dissemination agent on March 31, 2009 nine months after the end of such fiscal year. The dissemination agent filed such report with the securities repository on April 2, 2009.

UNDERWRITING

Morgan Stanley & Co. LLC, as representative of itself and the other underwriters of the Series R Bonds listed on the cover page hereof (the “Underwriters”), pursuant to and subject to the conditions set forth in the bond purchase contract between the District and the Underwriters (the “Bond Purchase Contract”), have agreed to purchase the Series R Bonds at a purchase price of \$103,849,798.68 (consisting of the principal amount of the Series R Bonds of \$91,670,000.00, plus an original issue premium of \$12,345,065.25, less an underwriting discount of \$165,266.57). The Bond Purchase Contract provides that the Underwriters will purchase all of the Series R Bonds if any are purchased.

Morgan Stanley, parent company of Morgan Stanley & Co. LLC, an underwriter of the Bonds, has entered into a retail brokerage joint venture with Citigroup Inc. As part of the joint venture, Morgan Stanley & Co. LLC will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, Morgan Stanley & Co. LLC will compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Bonds.

Goldman, Sachs & Co. (“Goldman Sachs”), one of the Underwriters of the Bonds, has entered into a master dealer agreement (the “Master Dealer Agreement”) with Incapital LLC (“Incapital”) for the distribution of certain municipal securities offerings, including the Bonds, to Incapital's retail distribution network at the initial public offering prices. Pursuant to the Master Dealer Agreement, Incapital will purchase the Bonds from Goldman Sachs at the initial public offering price less a negotiated portion of the selling concession applicable to any Bonds that Incapital sells.

The underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. Certain of the underwriters and their respective affiliates have provided, and may in the future provide, a variety of these services to the issuer and to persons and entities with relationships with the issuer, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the underwriters and their respective affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of the issuer (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with the issuer. The underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in

respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

VERIFICATION

Grant Thornton LLP, upon delivery of the Series R Bonds, will deliver a report on the mathematical accuracy of certain computations, contained in schedules provided to it which were prepared by the Financial Advisor, relating to the sufficiency of the anticipated receipts from the federal securities or the uninvested cash deposited to the Escrow Fund held by the Escrow Agent to pay, when due, the principal, whether at maturity or upon redemption, interest and premium, if any, of the Refunded Bonds. See “PLAN OF REFUNDING” herein.

FINANCIAL ADVISOR

The District has retained Public Financial Management, Inc. as financial advisor with respect to the issuance of the Series R Bonds. Public Financial Management, Inc. is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement. Public Financial Management, Inc. is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities.

CERTAIN LEGAL MATTERS

The validity of the Series R Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the District. A copy of the proposed form of the opinion of Bond Counsel is attached as Appendix C hereto. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Bold, Polisner, Maddow, Nelson & Judson, A Professional Corporation, will provide an opinion upon certain legal matters in connection with the Series R Bonds for the District. Certain legal matters will be passed upon for the Underwriters by their counsel Stradling Yocca Carlson & Rauth, A Professional Corporation.

MISCELLANEOUS

This Official Statement includes descriptions of the terms of the Series R Bonds, the Resolution and certain provisions of the Law. Such descriptions do not purport to be complete, and all such descriptions and references thereto are qualified in their entirety by reference to each such document and the Law. The Board of Directors of the District has duly authorized the distribution of the Official Statement.

CONTRA COSTA WATER DISTRICT
CONTRA COSTA COUNTY, CALIFORNIA

By: _____/s/ Brice Bledsoe _____
Assistant General Manager - Administration

APPENDIX A

**CONTRA COSTA WATER DISTRICT
AUDITED FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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CONTRA COSTA WATER DISTRICT

Basic Financial Statements
For the Year Ended June 30, 2012

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CONTRA COSTA WATER DISTRICT
For the Year Ended June 30, 2012

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Board of Directors
Contra Costa Water District
Concord, California

Independent Auditor's Report

We have audited the accompanying financial statements of the business-type activities, each major fund and the fiduciary funds of the Contra Costa Water District (the District), as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund and the fiduciary funds of the District as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The basic financial statements include summarized prior year comparative information. Such prior year information does not include all of the information required to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's basic financial statements for the year ended June 30, 2011, from which such summarized information was derived.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2012, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Macias Gini & Connell LLP

Walnut Creek, California
November 16, 2012

Management's Discussion and Analysis
(Required Supplementary Information – Unaudited)

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The Governmental Accounting Standards Board Statement Number 34 requires that management prepare a Management's Discussion and Analysis (MDA) section as a component of the audited financial statements.

The Contra Costa Water District (District) MDA presents management's analysis of the District's financial condition and activities for the year ended June 30, 2012. The MDA is intended to serve as an introduction to the District's basic financial statements. A comparative analysis of fiscal year 2012 (FY12) to 2011 (FY11) information is presented in this report. Readers are encouraged to consider the information presented here as complementary to the information contained in the accompanying financial statements.

The information in this MDA is presented in the following order:

- 1 Organization and Overview of Financial Statements
- 2 Financial Analysis
- 3 Capital Assets
- 4 Debt Administration
- 5 Request for Information

Organization and Overview of Financial Statements:

The Contra Costa Water District was formed as a legal entity on May 9, 1936, in response to the growing water demands of Contra Costa County (County). The District purchases and distributes water provided primarily by the United States Bureau of Reclamation from the Federal Government's Central Valley Project. The District's service area has grown from its original 48,000 acres to a current area of over 137,000 acres in the central and eastern portions of the County. The District delivers treated water to a population of approximately 500,000 people within the County. The District derives most of its revenue from the sale of untreated water and treated water. The District has broad powers to finance, construct, and operate a system of transportation, storage, treatment, and distribution of untreated and treated water.

The Contra Costa Water Authority (Authority) was created as a joint powers authority pursuant to the Joint Exercise of Powers Agreement, dated June 6, 1989, between the District and Diablo Water District for the purpose of providing for the financing, construction, and operations of the Randall-Bold Water Treatment Plant, which subsequently began operations in 1992. The financial operations of the Authority and the District are closely related, and the Authority is governed by the District's Board of Directors. As a result, the Authority is a component unit of the District. The Authority's component unit financial statements are included as a blended component of the District's basic financial statements.

The District is a proprietary entity and uses enterprise fund accounting to report its activities for financial statement purposes. Proprietary funds are reported using the accrual basis of accounting and account for activities in a manner similar to private business enterprises. The intent of the governing body is that the cost (including depreciation) of providing goods or services to the general public on a continuing basis be financed primarily through user rates, fees, and charges.

The basic financial statements include the statement of net assets; statement of revenues, expenses, and changes in fund net assets; and statement of cash flows. The following is a brief explanation of the use of each of the statements:

The *statement of net assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of revenues, expenses, and changes in net assets* presents information on how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The *statement of cash flows* presents the cash inflows and outflows and the resulting cash position at fiscal year end.

The *notes to the basic financial statements* provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Financial Analysis:

The District remained in a strong financial position during FY12 as illustrated in the financial analysis below.

Financial Condition

Net Assets
June 30, 2012 and 2011
(In Millions of Dollars)

	2012	2011	Increase (Decrease)
ASSETS:			
Capital assets, net	\$ 1,238	\$ 1,176	\$ 62
Cash and investments	233	265	(32)
Other assets	30	30	-
Total Assets	<u>1,501</u>	<u>1,471</u>	<u>30</u>
LIABILITIES:			
Noncurrent liabilities	538	524	14
Current liabilities	82	83	(1)
Total Liabilities	<u>620</u>	<u>607</u>	<u>13</u>
NET ASSETS:			
Invested in capital assets (net of related debt)	706	663	43
Restricted for capital projects	35	55	(20)
Unrestricted	140	146	(6)
Total Net Assets	<u>\$ 881</u>	<u>\$ 864</u>	<u>\$ 17</u>

Comparison of FY12 to FY11: Total assets in FY12 increased by \$30 million, surpassing the \$1.5 billion mark, while total liabilities increased by \$13 million to \$620 million. This resulted in an overall increase in net assets of \$17 million. Key components in the increase are as follows:

- Capital assets increased \$62 million in FY12 primarily due to the implementation of the Los Vaqueros Reservoir Expansion and Energy Projects, land purchased in relation to construction / mitigation of the Los Vaqueros Reservoir Expansion Project, completion of the Middle River Intake project, as well as needed upgrades, replacements and installation of new District facilities and equipment (including generators, reservoirs, transmission and distribution facilities). Please refer to the Capital Assets section of the MDA for further details.
- Cash and investments reflect a net decrease of \$32 million; \$26 million of Proposition 84 grant funds received in FY11 were utilized to offset debt service requirements. In addition to other miscellaneous offsetting factors, the net effect from operations and debt service payments resulted in an additional \$6 million decrease.
- Total liabilities increased by \$13 million in FY12. Noncurrent liabilities increased by \$14.2 million as the net result of issuing \$60.0 million in Series B Water Revenue Notes offset by the pay down of \$27.8 million in Series A Water Revenue Notes, \$15.1 million in scheduled debt payments, and \$2.9 million in other reductions, including deferred revenue and advances received for applicant projects. Current liabilities decreased by \$1.2 million due to a \$3.3 million reduction in debt payments and a \$2.5 million increase in accounts payable due to accrued expenses for the Los Vaqueros Reservoir Expansion Project.

Results of Operations

June 30, 2012 and 2011
(In Millions of Dollars)

	2012	2011	Increase (Decrease)
OPERATING REVENUES:			
Untreated water sales	\$ 33	\$ 31	\$ 2
Treated water sales	62	57	5
Other operating revenues	5	5	-
Total Operating Revenues	<u>100</u>	<u>93</u>	<u>7</u>
OPERATING EXPENSES:			
Operations	40	36	4
Public information and customer service	4	4	-
Administrative and general	19	20	(1)
Depreciation	29	27	2
Total Operating Expenses	<u>92</u>	<u>87</u>	<u>5</u>
Net Operating Income	8	6	2
Non Operating Revenues (Expenses)	<u>(5)</u>	<u>(12)</u>	<u>7</u>
Net Income Before Contributions	3	(6)	9
Capital Contributions	<u>14</u>	<u>36</u>	<u>(22)</u>
CHANGES IN NET ASSETS	17	30	(13)
NET ASSETS BEGINNING OF YEAR	<u>864</u>	<u>834</u>	<u>30</u>
NET ASSETS END OF YEAR	<u>\$ 881</u>	<u>\$ 864</u>	<u>\$ 17</u>

Comparison of FY12 to FY11: The District ended the year with total revenues exceeding total expenses by \$17 million. Total FY12 operating revenues of \$100 million were \$7 million higher than FY11, while total operating expenses increased by \$5 million. Non operating expenses decreased by \$7 million while capital contributions of \$14 million represented a \$22 million decrease from FY11. Major contributors to this year's results are as follows:

- Operating revenues increased by \$7 million in FY12, due primarily to \$2 million of increased consumption from municipal & industrial untreated water customers, in addition to a \$5 million increase in consumption for residential and wholesale treated water customers. The higher consumption reflects a trend in customer habits towards more usage and slightly less conservation in non-drought years, along with periods of drier weather during the year.
- Operating expense for FY12 increased by \$5 million over FY11. Higher water and pumping (energy) costs associated with the refilling of the expanded Los Vaqueros Reservoir accounted for \$4 million of the increase. An additional \$2 million in annual depreciation of assets was partially offset by a \$1 million decrease in administrative costs due to the adjustment of applied overhead allocated between operating expense and capital projects.

- Capital contributions decreased by \$22 million in FY12 compared to FY11, due mainly to the receipt in FY11 of \$26 million from the State of California in Proposition 84 grant funds for the Middle River Intake Project, which did not reoccur in FY12. This was offset partially by increases of \$1.6 million and \$1.5 million in contributions in aid of construction and capital grants, respectively.
- Non Operating Expense decreased by \$7 million in FY12. The change represents a \$4 million increase in rent and other, a \$4 million reduction in interest expense due to District long-term debt refinancing activities and the impact of a \$7 million write-off in FY11 of a Lehman Brothers investment, partially offset by an increase in the District’s asset fair market (which was positive, but \$6 million less than in FY11).

Capital Assets:

The District’s investment in capital assets as of June 30, 2012, amounts to \$1.2 billion (net of accumulated depreciation). The investment in capital assets includes utility plant and canal system, land and rights of way, and construction in progress as follows:

June 30, 2012 and 2011 (In Millions of Dollars)			
	2012	2011	Increase (Decrease)
Utility plant and canal system (net of depreciation)	\$ 852	\$ 846	\$ 6
Land and rights of way	256	249	7
Construction in progress	130	81	49
Total	<u>\$ 1,238</u>	<u>\$ 1,176</u>	<u>\$ 62</u>

The total increase in the District’s investment in capital assets for FY12 was \$62 million (net of annual depreciation). Major contributors to the increase in capital assets are as follows:

- Utility plant and canal system increased by \$6 million, net of depreciation. Completed projects for the year included the Middle River Intake, Contra Costa Canal Fish Screens, Gregory Garden Pump Station, Paso Nogal Pump Station Abandonment, Brentwood Water Treatment Plant Seismic Improvements to the Sedimentation Basins, Mile Post 8.65 Rehabilitation, Shortcut Pipeline Rehabilitation, Untreated Water Revenue Meter Data Loggers, SCADA Upgrades, Water Quality Improvement Rebate Programs and various applicants’ projects. Offsetting depreciation totaled \$29 million.
- Land and rights of way increased by \$7 million in FY12 due to land purchased for construction/mitigation efforts related to the Los Vaqueros Reservoir Expansion Project.
- Construction in progress increased by \$49 million in FY12 due primarily to the implementation of a number of projects, including the Los Vaqueros Reservoir Expansion and Los Vaqueros Energy Recovery Projects.

Readers desiring more detailed information on the District’s capital assets should refer to Note 3 of the accompanying financial statements.

Debt Administration:

At June 30, 2012, the District had \$584 million total debt outstanding. The District used an additional \$60 million of long-term Water Revenue Notes (Series B) issued at the beginning of FY12 to fund the completion of the Los Vaqueros Expansion and preliminary stages of the Shortcut Pipeline Project. The District also issued \$47 million of Water Revenue Refunding Bonds (Series P) to refund a portion of the previously issued Series K Water Revenue Bonds generating significant savings as a result of lower market interest rates. Remaining proceeds from the Water Revenue Note issuance were \$16 million at year end and will be fully depleted in early FY13. Total debt outstanding consists of \$404 million of Water Revenue Bonds and \$166 million in Water Revenue Notes (net of unamortized discount, premium, and cost of issuance), as well as \$14 million in State Revolving Fund loans. The District's annual debt service for the upcoming fiscal year is \$74 million, inclusive of the State Revolving Fund loans and Water Revenue Notes. The issuance of \$87 million in Water Revenue Refunding Bonds (Series Q) in early FY13 will refund the remaining portion of the previously issued Series K Water Revenue Bonds as well as all of the outstanding Series L Water Revenue Bonds. In addition, \$23 million of Contra Costa Water Authority Water Revenue Bonds (Series 2012A) will be issued to refund the previously issued 2002A Bonds. The combined impact of these two issuances is expected to generate approximately \$21 million in additional savings. The District is also preparing to issue approximately \$50 million in Extendable Municipal Commercial Paper in early FY13 to take advantage of low market short-term interest rates as a mechanism to meet the upcoming FY13 and FY14 debt service payments until further long-term refinancing is appropriate. Readers desiring more detailed information on the District's long-term debt should refer to Note 5 of the accompanying financial statements.

Request for Information:

This report is designed to provide ratepayers and creditors with a general overview of the District's finances and demonstrate the District's accountability for the monies it receives. If you have any questions about this report or need additional information, please contact: The Finance Manager, P.O. Box H2O, Concord, CA 94524.

Basic Financial Statements

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**CONTRA COSTA WATER DISTRICT
STATEMENT OF NET ASSETS
BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS
AS OF JUNE 30, 2012
WITH SUMMARIZED TOTALS AS OF JUNE 30, 2011**

ASSETS	Water District Fund	Water Authority Fund	Totals	
			2012	2011
Noncurrent Assets:				
Capital Assets (Note 3):				
Non-depreciable	\$ 382,862,963	\$ 3,272,324	\$ 386,135,287	\$ 330,195,641
Depreciable, net	822,860,729	28,889,219	851,749,948	845,736,758
Total Capital Assets	<u>1,205,723,692</u>	<u>32,161,543</u>	<u>1,237,885,235</u>	<u>1,175,932,399</u>
Notes receivable	502,196	-	502,196	743,073
Net other post-employment benefits asset (Note 7)	2,461,828	-	2,461,828	3,202,512
Unamortized bond issuance costs	2,274,968	126,148	2,401,116	2,412,248
Restricted Assets (Note 2):				
Cash and cash equivalents	27,363,914	7,107	27,371,021	65,568,832
Investments	53,772,081	3,794,359	57,566,440	45,121,477
Total Restricted Assets	<u>81,135,995</u>	<u>3,801,466</u>	<u>84,937,461</u>	<u>110,690,309</u>
Total Noncurrent Assets	<u>1,292,098,679</u>	<u>36,089,157</u>	<u>1,328,187,836</u>	<u>1,292,980,541</u>
Current Assets:				
Cash and cash equivalents (Note 2)	50,184,938	-	50,184,938	51,230,658
Investments (Note 2)	97,828,964	-	97,828,964	103,064,264
Receivables (Note 1)	23,302,328	118	23,302,446	21,799,756
Other current assets	1,572,983	-	1,572,983	1,771,147
Interfund balances (Note 1)	1,330,073	(1,330,073)	-	-
Total Current Assets	<u>174,219,286</u>	<u>(1,329,955)</u>	<u>172,889,331</u>	<u>177,865,825</u>
Total Assets	<u>1,466,317,965</u>	<u>34,759,202</u>	<u>1,501,077,167</u>	<u>1,470,846,366</u>

(Continued)

See accompanying notes to the basic financial statements.

CONTRA COSTA WATER DISTRICT
STATEMENT OF NET ASSETS (CONTINUED)
BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS
AS OF JUNE 30, 2012
WITH SUMMARIZED TOTALS AS OF JUNE 30, 2011

	Water District Fund	Water Authority Fund	Totals	
			2012	2011
LIABILITIES				
Noncurrent Liabilities:				
Advances for construction (Note 4)	\$ 2,670,090	\$ -	\$ 2,670,090	\$ 4,445,696
Unearned revenue and other (Note 4)	742,794	-	742,794	976,651
Notes payable (Note 5)	134,950,693	-	134,950,693	99,979,872
Bonds and loans payable (Note 5)	375,156,570	24,418,130	399,574,700	418,384,741
Total Noncurrent Liabilities	<u>513,520,147</u>	<u>24,418,130</u>	<u>537,938,277</u>	<u>523,786,960</u>
Current Liabilities				
Current maturities of notes payable (Note 5)	30,713,864	-	30,713,864	31,092,392
Current maturities of bonds and loans payable (Note 5)	16,168,047	2,550,000	18,718,047	21,729,502
Accounts payable	20,457,381	-	20,457,381	17,964,596
Accrued payroll and related expenses	5,216,778	-	5,216,778	5,618,980
Interest payable	6,187,538	318,423	6,505,961	6,453,735
Total Current Liabilities	<u>78,743,608</u>	<u>2,868,423</u>	<u>81,612,031</u>	<u>82,859,205</u>
Total Liabilities	<u>592,263,755</u>	<u>27,286,553</u>	<u>619,550,308</u>	<u>606,646,165</u>
NET ASSETS (Note 1)				
Invested in capital assets, net of related debt	697,198,693	9,121,027	706,319,720	663,118,912
Restricted for capital projects	34,946,788	-	34,946,788	54,729,536
Unrestricted net assets (deficit)	141,908,729	(1,648,378)	140,260,351	146,351,753
Total Net Assets	<u>\$ 874,054,210</u>	<u>\$ 7,472,649</u>	<u>\$ 881,526,859</u>	<u>\$ 864,200,201</u>

See accompanying notes to the basic financial statements.

CONTRA COSTA WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2012
WITH SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2011

	Water	Water	Totals	
	District Fund	Authority Fund	2012	2011
OPERATING REVENUES:				
Untreated water sales	\$ 33,385,869	\$ -	\$ 33,385,869	\$ 31,116,132
Treated water sales	61,983,614	-	61,983,614	57,064,934
Reimbursement of operating expenses	4,484,799	-	4,484,799	4,477,957
Miscellaneous service charges	136,926	-	136,926	143,576
Total operating revenues	<u>99,991,208</u>	<u>-</u>	<u>99,991,208</u>	<u>92,802,599</u>
OPERATING EXPENSES:				
Source of supply	6,442,749	-	6,442,749	5,385,065
Water treatment	7,855,828	-	7,855,828	7,826,702
Pumping	7,980,871	-	7,980,871	4,487,442
Transmission and distribution	1,026,636	-	1,026,636	1,112,076
Maintenance	16,643,200	-	16,643,200	16,824,696
Public information and customer service	3,926,353	-	3,926,353	3,758,649
Administrative and general	19,476,552	-	19,476,552	20,447,853
Depreciation (Note 3)	27,856,172	1,235,438	29,091,610	27,109,127
Total operating expenses	<u>91,208,361</u>	<u>1,235,438</u>	<u>92,443,799</u>	<u>86,951,610</u>
OPERATING INCOME (LOSS)	<u>8,782,847</u>	<u>(1,235,438)</u>	<u>7,547,409</u>	<u>5,850,989</u>
NONOPERATING REVENUES (EXPENSES):				
Property taxes	3,640,883	-	3,640,883	2,880,114
Investment earnings	3,420,831	21,333	3,442,164	4,359,217
Net increase (decrease) in fair value of investments	924,096	-	924,096	(74,283)
Gain on sale of investment	51,523	-	51,523	-
Interest expense	(19,394,273)	(1,392,932)	(20,787,205)	(24,020,504)
Rent and other, net	4,557,104	3,795,267	8,352,371	4,507,871
Nonoperating revenues (expenses), net	<u>(6,799,836)</u>	<u>2,423,668</u>	<u>(4,376,168)</u>	<u>(12,347,585)</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	1,983,011	1,188,230	3,171,241	(6,496,596)
CAPITAL CONTRIBUTIONS:				
Contributions in aid of construction	7,664,961	-	7,664,961	6,072,676
Capital grants	6,490,456	-	6,490,456	30,858,703
Total capital contributions	<u>14,155,417</u>	<u>-</u>	<u>14,155,417</u>	<u>36,931,379</u>
CHANGES IN NET ASSETS	16,138,428	1,188,230	17,326,658	30,434,783
NET ASSETS, BEGINNING OF YEAR:				
As previously reported	857,915,782	6,284,419	864,200,201	833,032,208
Prior period adjustment (Note 10)	-	-	-	733,210
As restated	<u>857,915,782</u>	<u>6,284,419</u>	<u>864,200,201</u>	<u>833,765,418</u>
NET ASSETS, END OF YEAR	\$ 874,054,210	\$ 7,472,649	\$ 881,526,859	\$ 864,200,201

See accompanying notes to the basic financial statements

**CONTRA COSTA WATER DISTRICT
STATEMENT OF CASH FLOWS
BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2012
WITH SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2011**

	Water	Water	Totals	
	District Fund	Authority Fund	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 97,045,889	\$ -	\$ 97,045,889	\$ 95,412,120
Payments to suppliers	(25,405,562)	-	(25,405,562)	(25,131,111)
Payments to employees	(38,184,094)	-	(38,184,094)	(35,714,990)
Internal activity - payments to other funds	(65,757)	65,757	-	-
Other receipts	3,863,901	3,808,767	7,672,668	4,993,184
Net cash provided by operating activities	37,254,377	3,874,524	41,128,901	39,559,203
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	(35,355,641)	(3,794,359)	(39,150,000)	(123,420,000)
Proceeds from investment maturities and redemptions	31,715,000	-	31,715,000	95,847,589
Investment income	4,795,621	21,215	4,816,836	1,453,300
Net cash provided by (used in) investing activities	1,154,980	(3,773,144)	(2,618,164)	(26,119,111)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Property taxes received and other	3,640,883	-	3,640,883	2,880,114
Net cash provided by noncapital financing activities	3,640,883	-	3,640,883	2,880,114
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Additions to utility plant and equipment	(83,768,080)	(113,177)	(83,881,257)	(66,609,079)
Receipts from capital grants	7,148,450	-	7,148,450	36,525,740
Receipts from contributions in aid of construction	5,889,355	-	5,889,355	6,072,676
Proceeds from debt issues	67,210,424	-	67,210,424	-
Principal defeased in current year	(315,306)	-	(315,306)	-
Principal payments on long-term debt and commercial paper	(49,683,076)	(2,450,000)	(52,133,076)	(21,041,427)
Interest paid on long-term debt	(23,991,048)	(1,322,693)	(25,313,741)	(23,510,901)
Net cash used in capital and related financing activities	(77,509,281)	(3,885,870)	(81,395,151)	(68,562,991)
CHANGE IN CASH AND CASH EQUIVALENTS	(35,459,041)	(3,784,490)	(39,243,531)	(52,242,785)
Cash and cash equivalents at beginning of year	113,007,893	3,791,597	116,799,490	169,042,275
Cash and cash equivalents at end of year	\$ 77,548,852	\$ 7,107	\$ 77,555,959	\$ 116,799,490
SUMMARY OF CASH AND CASH EQUIVALENTS REPORTED ON THE STATEMENT OF NET ASSETS				
Cash and Cash Equivalents:				
Restricted cash and cash equivalents	\$ 27,363,914	\$ 7,107	\$ 27,371,021	\$ 65,568,832
Unrestricted cash and cash equivalents	50,184,938	-	50,184,938	51,230,658
Total Cash and Cash Equivalents	\$ 77,548,852	\$ 7,107	\$ 77,555,959	\$ 116,799,490

(Continued)

See accompanying notes to the basic financial statements

**CONTRA COSTA WATER DISTRICT
STATEMENT OF CASH FLOWS (CONTINUED)
BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2012
WITH SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2011**

	Water District Fund	Water Authority Fund	Totals	
			2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES				
Operating income (loss)	\$ 8,782,847	\$ (1,235,438)	\$ 7,547,409	\$ 5,850,989
Adjustments to reconcile operating income (loss) to cash flows from operating activities:				
Depreciation	27,856,172	1,235,438	29,091,610	27,109,127
Rent and other, net	3,598,685	3,795,267	7,393,952	3,829,077
Effect of changes in:				
Receivables	(1,382,462)	13,500	(1,368,962)	1,550,517
Notes receivable	233,858	-	233,858	234,063
Other assets	198,164	-	198,164	756,280
Accounts payable and accrued expenses	(2,473,957)	-	(2,473,957)	614,743
Internal balances	(65,757)	65,757	-	-
Unearned revenue and other	(233,857)	-	(233,857)	(226,859)
Net OPEB asset	740,684	-	740,684	(158,734)
	<u>\$ 37,254,377</u>	<u>\$ 3,874,524</u>	<u>\$ 41,128,901</u>	<u>\$ 39,559,203</u>
SCHEDULE OF NON CASH ACTIVITIES				
Change in fair value of investments	\$ 975,619	\$ -	\$ 975,619	\$ 3,916,604
Change in receivables related to capital grants	340,707	-	340,707	5,667,037
Change in accounts payable related to acquisition of capital assets	4,564,540	-	4,564,540	699,751
Amortization of deferred bond issuance costs	622,043	28,269	650,312	(464,814)
Amortization of bond related discount and deferred loss on refunding	2,563,955	66,470	2,630,425	(2,434,417)
Defeasement escrow payment	51,399,219	-	51,399,219	-
Capitalized interest related to construction in progress	2,598,649	-	2,598,649	-

See accompanying notes to the basic financial statements

CONTRA COSTA WATER DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
RETIREMENT PLAN AND OTHER POST-EMPLOYMENT BENEFIT TRUST FUNDS
AS OF JUNE 30, 2012
WITH COMPARATIVE TOTALS AS OF JUNE 30, 2011

	2012	2011
ASSETS:		
Cash and cash equivalents (Note 2)	\$ 1,177,833	\$ 1,661,388
Investments, at fair value:		
US Treasury securities	13,543,521	11,515,997
Federal agency securities	3,073,752	3,482,060
Mortgage/Asset - Backed securities	13,411,531	13,032,689
Real estate investment fund	7,228,028	6,063,628
Corporate bonds	11,889,081	11,269,315
Equity securities	4,104,013	3,675,111
Equity mutual funds	71,612,038	72,932,668
Municipal bonds	284,240	237,877
Total Investments (Note 2)	125,146,204	122,209,345
Total Cash and Investments	126,324,037	123,870,733
Receivables:		
Accrued income	295,585	314,540
Contribution due from District	1,160,638	136,735
Contribution due from participants	67,855	68,605
Total Receivables	1,524,078	519,880
Total Assets	127,848,115	124,390,613
LIABILITIES:		
Pending trades payable	-	77,477
NET ASSETS:		
Held in trust for pension benefits	112,760,420	111,752,969
Held in trust for other post-employment benefits	15,087,695	12,560,167
Total Net Assets	\$ 127,848,115	\$ 124,313,136

See accompanying notes to the basic financial statements.

CONTRA COSTA WATER DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
RETIREMENT PLAN AND OTHER POST-EMPLOYMENT BENEFIT TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 2012
WITH COMPARITIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2011

	2012	2011
Additions:		
Contributions:		
District	\$ 6,865,743	\$ 6,353,864
Paid by the District on behalf of employees	600,909	594,858
Paid by employees	2,342,735	2,105,505
Total contributions	9,809,387	9,054,227
Investment income:		
Net increase in fair value of investments (Note 4)	(787,871)	18,910,618
Interest, dividends, and other	3,094,179	2,830,364
Less: investment expenses	(118,967)	(104,781)
Net investment income	2,187,341	21,636,201
Total additions	11,996,728	30,690,428
Deductions:		
Distributions paid to participants	8,461,749	7,774,591
Administrative expenses	-	1,931
Total deductions	8,461,749	7,776,522
Net increase	3,534,979	22,913,906
Net Assets:		
Beginning of year	124,313,136	101,399,230
End of year	\$ 127,848,115	\$ 124,313,136

See accompanying notes to the basic financial statements.

CONTRA COSTA WATER DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2012

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The Contra Costa Water District (the District) was formed under the authority of the County Water District Law, constituting Division 12 of the State Water Code (County Water District Law) and is governed by an elected five-member Board of Directors (District Board). The District, which was established on May 9, 1936, was created to purchase and distribute water provided by the United States Government's Bureau of Reclamation from the federal government's Central Valley Project. The District's service area encompasses approximately 136,000 acres in the central and northeastern portions of Contra Costa County.

Reporting Entity - The accompanying basic financial statements of the District include the financial activities of the Contra Costa Water Authority (the Authority), a component unit of the District, because its financial operations are closely related and the Authority is governed by the same Board. Separate financial statements of the Authority can be obtained from the District. The financial activities of the Contra Costa Water District Retirement Plan (the Plan) and the Contra Costa Water District Other Post-Employment Benefits Trust (the Trust) are reported in fiduciary funds within the basic financial statements because the Plan and the Trust exclusively serve the employees of the District.

The Authority was formed in June 1989 pursuant to the Joint Exercise of Powers Agreement (the Agreement), between the District and the Diablo Water District (Diablo) to provide for financing, constructing and owning the Randall-Bold Treatment Plant (the Plant). The Plant began operations and commenced water deliverance to the District and Diablo in July 1992.

The Plant is jointly owned by the District and Diablo and is operated by the District in accordance with the Agreement. The District is solely responsible for authorization and payment of any indebtedness of the Authority. Diablo is not responsible for any contractual obligations, liabilities, indebtedness, or expenses of the Authority.

Diablo reimburses the District 35.5% of the annual debt service. Diablo also reimburses the District 30.0% of the annual fixed operating and maintenance costs and a percentage of the Plant's annual variable operating costs equal to the percentage of total water production received by Diablo. Under a site lease dated May 15, 1990, amended and restated May 1, 1993, the District and Diablo, as lessors, leased the project site and improvements to the Authority. In consideration, the District pays the Authority base rent as set forth in the facility lease. All base rental payments are used for payment of principal and interest on the 2002 Water Treatment Revenue Refunding Bonds, Series A (see Note 5). In addition, the District pays as additional rent all costs required to be paid by the Authority in connection with the facility lease and trust agreement. The District is not required to advance monies under the facility lease from any source other than operating income. The District is required to fix, charge and collect rates, fees and charges as long as any of the bonds are outstanding which, together with all other revenue of the District, will produce sufficient operating income in each fiscal year so that the debt service coverage ratio is not less than 1.25:1 and the obligation service coverage ratio is not less than 1:1. Lease payments made by the District to the Authority are eliminated in the financial statements.

Basis of Presentation - The District's basic financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

CONTRA COSTA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
Year Ended June 30, 2012

The accounts of the District are organized and operated on a fund basis. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenses.

The District reports the following major proprietary (enterprise) funds:

Water District Fund – was established to purchase and distribute water provided by the United States Government’s Bureau of Reclamation from the federal government’s Central Valley Project.

Water Authority Fund – this fund presents the activity of the Authority, which was created pursuant to the Agreement, dated June 6, 1989, between the District and Diablo for the purpose of providing for the financing and construction of a joint water treatment plant.

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The District reports the Retirement Plan and Other Post-Employment Benefits Trust Funds, which are comprised of two separate fiduciary funds, as follows:

Retirement Plan Trust Fund – was established under a trust agreement made on February 17, 1962, and subsequently amended, and is a single-employer defined benefit retirement plan in which all permanent and full-time employees and eligible members of the Board participate.

Other Post-Employment Benefits Trust Fund – was established in 2008 to administer a single-employer, contributory, defined benefit post-employment medical plan. The Trust provides post-employment health insurance benefits for eligible directors, officers, and employees of the District.

Basis of Accounting - The proprietary and fiduciary financial statements are reported using the *economic resources measurement focus* and the full *accrual basis* of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place.

Non-exchange transactions, in which the District gives or receives value without directly receiving or giving equal value in exchange, include taxes, grants, entitlements, and donations. On the accrual basis, revenue from taxes is recognized in the fiscal year for which the taxes are levied or assessed.

Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. The District may fund programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net assets may be available to finance program expenditures.

CONTRA COSTA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
Year Ended June 30, 2012

Certain indirect costs are included in program expenses reported for individual functions and activities. For its proprietary activities, the District does not apply Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989. The proprietary funds apply all applicable GASB pronouncements as well as statements and interpretations of FASB, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Measurement Focus – Enterprise and fiduciary funds are accounted for on a cost of services or *economic resources* measurement focus, which means that all assets and all liabilities associated with their activities are included on their financial statements. Enterprise fund type operating statements present increases (revenues) and decreases (expenses) in total net assets.

Classification of Revenues - Operating revenues consist of sales of water. Nonoperating revenues consist of property taxes, investment earnings, and contributions in aid of construction; grant revenues, rent and special charges that can be used for either operating or capital purposes.

When restricted resources are available for use for a specific purpose, it is the District’s policy to use these restricted resources first, and then unrestricted resources as they are needed.

Cash and Cash Equivalents - For purposes of the statement of cash flows, the District defines cash and cash equivalents to include all cash and temporary investments with original maturities of three months or less from the date of acquisition.

Investments - Investments are generally carried at fair value. Any realized gains or losses in investments such as interest earned are reported as investment earnings. The unrealized appreciation (depreciation) of those investments is reported as such in the Statement of Revenues, Expenses and Changes in Net Assets. Measurement of the fair value of investments is based upon quoted market prices.

Enterprise Receivables - The District bills water consumption on a cycle billing method. Cycle billing results in an amount of services rendered but not yet billed at year-end. The District has recorded this revenue by estimating the unbilled amount. The estimate was calculated by using the billings subsequent to the financial statement date (June 30) and calculating the amount of service provided prior to June 30. This calculated amount is included within accounts receivable as part of the customer accounts balance.

Receivables at June 30, 2012, were comprised of the following:

Customer accounts	\$ 15,454,800
Accrued interest	1,096,925
Current portion of notes receivable	240,597
Leases and loans	576,682
Grants receivable	4,791,873
Miscellaneous	1,141,569
	\$ 23,302,446

CONTRA COSTA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
Year Ended June 30, 2012

Current Interfund Balances - Current interfund balances arise in the normal course of business and are expected to be repaid shortly after the end of the fiscal year.

At June 30, 2012, the Water Authority Fund owed the Water District Fund \$1,330,073, which primarily represents the District's share of upcoming semi-annual debt service payment for the Water Authority bonds that is made in the subsequent fiscal year.

Capital Assets - Property, plant and equipment are stated at cost. The District capitalizes all assets with a historical cost of at least \$5,000 and a useful life of more than one year. The cost of additions to utility plant and major replacements of property are capitalized. Capitalized costs include material, direct labor, transportation and such indirect items as engineering, supervision, employee fringe benefits and interest on net borrowed funds related to plant under construction. Capitalized interest for the year ended June 30, 2012 was \$2,598,649. There was no capitalized interest for the year ended June 30, 2011. Contributed property is recorded at estimated fair value at the date of donation. Payments received for connection fees are recorded as contributions in aid of construction. Repairs, maintenance and minor replacements of property are expensed.

The purpose of depreciation is to allocate the cost of capital assets over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of depreciable capital assets.

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, called accumulated depreciation, is reported on the financial statements as a reduction in the book value of the capital assets.

Capital assets are depreciated using the straight line method of depreciation, which means the cost of the asset is divided by its expected 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:

	<u>Years</u>
Utility plant:	
Transmission and distribution	42
Treatment	42
Pumping	45-50
Reservoir and appurtenances:	
Electrical/instrumentation	15
Roads	33
Structures/piping/fencing	40
Steel reservoirs/pumps/motors	50
Pipelines	75
Dam/intake/outlet pipes	100
General plant:	
Computer/furniture/operating equipment	5
Vehicles	10
Scada equipment/forklifts	10
Building and facilities	42
Canal system	100

CONTRA COSTA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
Year Ended June 30, 2012

Net Assets – Net assets of the enterprise funds are divided into three captions under GASB Statement 34, as described below:

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

Restricted - describes the portion of net assets which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws or other restrictions which the District cannot unilaterally alter. These principally include developer fees received for use on capital projects.

Unrestricted - describes the portion of net assets which is not restricted to use.

In addition, the District reports its fiduciary fund net assets as net assets held in trust for pension and other post-employment benefits. These fiduciary funds report resources that are required to be held in trust for the members and beneficiaries of the defined benefit pension plan and the other post-employment benefits plan.

Budgets and Budgetary Accounting - The District follows these procedures in establishing its budgetary data:

1. Budgets are adopted on a two-year basis consistent with generally accepted accounting principles (GAAP). These budgeted amounts are as originally adopted, or as amended by the Board. Budget adjustments with no-net-change impact are allowed. The General Manager is authorized to make no-net-change budget adjustments that do not exceed \$50,000 per adjustment, except for changes in labor. Budget adjustments that exceed \$50,000 or change labor budgets, or make a net change to the total budget, require the approval of the Board of Directors.
2. Prior to June 30, the proposed two-year budget is submitted to the General Manager, District Finance Officer, Finance Committee, and District Board for review.
3. Prior to June 30 the proposed two-year budget is submitted to the District Board for approval and the budget resolution is introduced. At a regularly scheduled Board meeting the resolution is adopted, normally before July 1.
4. Noticed public meetings are conducted to obtain rate payer comments.
5. Budgetary status is reviewed at mid-year by the District Board. Prior to July 1 of the second year of a two-year budget, that year's budget is reviewed in detail by the Board of Directors with proposed changes being submitted for approval by District Board resolution.

Property Taxes - Property taxes are levied by Contra Costa County and a portion is distributed to the District. The District recognizes property taxes as revenue in the fiscal year of levy.

Compensated Absences - Compensated absences, including accumulated unpaid vacation, sick pay, and other employee benefits, are accounted for as expenses in the year earned.

CONTRA COSTA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
Year Ended June 30, 2012

Long-term Debt, Debt Discount and Issuance Costs - Debt discount and issuance costs are amortized using the effective interest method over the life of the related debt. Long-term debt is reported at face value, net of applicable premium, discounts and deferred loss on refunding. Issuance costs are deferred and shown as an asset on the Statement of Net Assets. Issuance costs for the District's tax-exempt commercial paper short-term borrowings are expensed as incurred.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassification - For the year ended June 30, 2012, certain classifications have been changed to improve financial statement presentation. For comparative purposes prior year balances have been reclassified to conform with the fiscal year 2011 presentation.

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

- In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the authoritative pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The requirements of this Statement are effective for the District's fiscal year ending June 30, 2013.
- In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. This Statement also amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The requirements of this Statement are effective for the District's fiscal year ending June 30, 2013.
- In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans* an amendment of GASB Statement No. 25 and Statement No. 68, *Accounting and Financial Reporting for Pensions* an amendment of GASB Statement No. 27. These Statements establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement, such as determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. The Statements also establish standards for financial reporting for defined benefit plans. The requirements of these Statements are effective for the District's fiscal year ending June 30, 2015.

CONTRA COSTA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
Year Ended June 30, 2012

2 CASH AND INVESTMENTS

Enterprise Funds – Investment Policies and Specific Risks

Policies - The District invests in individual investments and in investment pools. Individual investments are evidenced by specific identifiable *securities instruments*, or by an electronic entry registering the owner in the records of the institution issuing the security, called the *book entry* system. In order to increase security, the District employs the Trust Department of a bank as the custodian of certain District managed investments, regardless of their form.

The District’s investments are carried at fair value, as required by generally accepted accounting principles. The District adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

The District is in compliance with the Board approved Investment Policy and California Government Code requirements.

Classification - The District’s cash and investments consist of the following at June 30, 2012:

	Restricted	Unrestricted	Total
Cash and cash equivalents	\$ 27,371,021	\$ 50,184,938	\$ 77,555,959
Investments	57,566,440	97,828,964	155,395,404
	\$ 84,937,461	\$ 148,013,902	\$ 232,951,363

Restricted Cash and Investments – A portion of the District’s cash and investments are restricted as use by the terms and conditions of agreements with outside parties, governmental regulations, laws or other restrictions which the District cannot unilaterally alter.

Unrestricted Cash and Investments - Included within unrestricted cash and investment balances are designated cash and investments, which represent those resources that have been collected by customers and developers and designated by the Board to be used for specific purposes. The designated balances at June 30, 2012, are as follows:

Cash and cash equivalents	\$ 20,293,466
Investments	93,499,654
Total designated cash and investments	\$ 113,793,120

Investments Authorized by the California Government Code and the District’s Investment Policy - The District’s Investment Policy and the California Government Code allow the District to invest in the following, provided the credit ratings of the issuers are acceptable to the District and approved percentages and maturities are not exceeded. The table below also identifies certain provisions of the California Government Code or the District’s Investment Policy where the District’s Investment Policy is more restrictive.

CONTRA COSTA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
Year Ended June 30, 2012

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum in Portfolio	Maximum Investment In One Issuer
Repurchase Agreements	92 Days	N/A	20%	(A)
California Local Agency Investment Fund	Upon Demand	N/A	(A)	(B)
U.S. Treasury Obligations	5 Years	N/A	(A)	(A)
Federal Agency Securities	5 Years	N/A	(A)	(A)
Bankers' Acceptances	180 Days	A	25%	30%
Commercial Paper	270 Days	A1, P1	15%	10%
Collateralized Certificates of Deposit	5 Years	N/A	30%	(A)
Medium Term Corporate Notes	5 Years	A	30%	(A)
California Asset Management Program	Upon Demand	N/A	(A)	(A)
Money Market Mutual Funds	Upon Demand	N/A	(A)	(A)

(A) No Board established limit.

(B) LAIF limit is \$50,000,000.

Investments Authorized by Debt Agreements - The District must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged reserves to be used if the District fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with District resolutions, bond indentures, or State statute.

In addition to the authorized investments of the District listed above, the table below identifies additional investment types that are authorized for investments held by fiscal agents.

Authorized Investment Type	Minimum Credit Quality
Corporate Securities	Highest Rating Category
Secured Municipal and Public Agency Housing Authority Bonds and Project Notes	N/A
General Obligations of any State	2 Highest Rating Categories
Variable Rate Obligations	Highest Rating Category
Cash Sweep Accounts	N/A
Money Market Funds	N/A
Shares in Common Law Trusts	2 Highest Rating Categories
Investment Agreement	Highest Rating Category

There are no restrictions on the maximum amount invested in each security type or a maximum that can be invested in any one issuer. All investments are required to have maturity dates of less than five years or not later than the date the moneys are required by the Trustee.

CONTRA COSTA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
Year Ended June 30, 2012

Interest Rate Risk - Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District generally manages its interest rate risk by holding investments to maturity. Information about the sensitivity of the fair values of the District's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity or earliest call date:

Investment Type	Maturities				Total
	12 Months or less	13 to 24 Months	25 to 60 Months	More than 60 Months	
Federal Agency Securities:					
Callable	\$ -	\$ -	\$ 5,222,950	\$ -	\$ 5,222,950
Non-Callable	14,375,614	43,190,185	30,962,206	-	88,528,005
Medium Term Corporate Notes	5,070,000	6,091,411	38,837,543	-	49,998,954
Guaranteed Investment Contracts	-	-	-	11,645,494	11,645,494
California Local Agency Investment Fund	22,533,719	-	-	-	22,533,719
California Asset Management Program	1,584,919	-	-	-	1,584,919
Money Market Mutual Funds	24,930,150	-	-	-	24,930,150
Total Investments	68,494,402	49,281,596	75,022,699	11,645,494	204,444,191
Cash Deposits	28,507,172	-	-	-	28,507,172
Total Cash and Investments	\$ 97,001,574	\$ 49,281,596	\$ 75,022,699	\$ 11,645,494	\$ 232,951,363

The District is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The District reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are maintained on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations. As of June 30, 2012, these investments matured in an average of 268 days.

The District is a voluntary participant in the California Asset Management Program (CAMP). CAMP is an investment pool offered by the California Asset Management Trust (CAMP Trust). The CAMP Trust is a joint powers authority and public agency for the purpose of exercising the common power of its participants to invest certain proceeds of debt issues and surplus funds. The investments are limited to those permitted by the California Government Code. The District reports its investments in CAMP at fair value, which is the same as the value of the pooled shares. At June 30, 2012, these investments have an average maturity of 54 days.

CONTRA COSTA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
Year Ended June 30, 2012

Credit Risk - Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of June 30, 2012, for each investment type, as provided by Moody's Investors Service.

Investment Type	Ratings					Not Rated	Total
	Aaa	Aa2	Aa3	A1	A2		
Federal Agency Securities:							
Callable	\$ 5,222,950	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,222,950
Non-Callable	88,528,005	-	-	-	-	-	88,528,005
Medium Term Corporate Notes	5,170,750	10,243,660	9,836,704	10,154,250	14,593,590	-	49,998,954
Guaranteed Investment Contracts	-	-	-	-	-	11,645,494	11,645,494
California Local Agency Investment Fund	-	-	-	-	-	22,533,719	22,533,719
California Asset Management Program	-	-	-	-	-	1,584,919	1,584,919
Money Market Mutual Funds	24,930,150	-	-	-	-	-	24,930,150
Total Investments	<u>\$ 123,851,855</u>	<u>\$ 10,243,660</u>	<u>\$ 9,836,704</u>	<u>\$ 10,154,250</u>	<u>14,593,590</u>	35,764,132	204,444,191
Cash in Banks						28,507,172	28,507,172
Total Cash and Investments						<u>\$ 64,271,304</u>	<u>\$ 232,951,363</u>

Concentration of Credit Risk – This is the risk that the failure of any one issuer would place an undue financial burden on the District. Included in the table at **Credit Risk** above are the following significant investments in the securities of issuers other than U. S. Treasury securities, mutual funds, and external investment pools that represent in excess of 5% of the District's total investments as follows:

Issuer	Investment Type	Amount
Federal Home Loan Mortgage Corporation	U.S. Agency Securities	\$ 71,169,171
Federal National Mortgage Association	Federal Agency Securities	17,981,473
FSA Capital	Guaranteed Investment Contract	11,645,494

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

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, the District will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The District invests in individual investments and in investment pools.

CONTRA COSTA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
Year Ended June 30, 2012

Fiduciary Funds – Investment Policies and Specific Risks

Retirement Plan

Investments Authorized by the Plan's Investment Policy - The Plan's agreement and applicable state laws authorize the Plan to invest in obligations of the U.S. Treasury and other U.S. agencies, certificates of deposit, domestic and international stocks, bankers' acceptances, corporate bonds rated A or better by Moody's Investor Service or Standard & Poor's Corporation, mortgage and asset-backed securities, money market mutual funds, and real estate. All investments of the Plan are held separately from District funds by the Plan's custodian in the Plan's name. The custodian is a counterparty and agent of the District.

Classification - The Plan's cash and investments consist of the following at June 30, 2012:

Cash and cash equivalents	\$ 1,177,833
Investments	111,058,509
	\$ 112,236,342

Interest Rate Risk - Interest rate risk is the risk that changes in market rates will adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Plan generally manages its interest rate risk by holding investments to maturity. Information about the sensitivity of the fair values of the Plan's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Plan's investments by maturity or earliest call date:

Investment Type	Maturities				Total
	12 Months or less	13 to 24 Months	25 to 60 Months	More than 60 Months	
U.S. Treasury Securities (non-callable)	\$ 3,369,930	\$ 579,667	\$ 4,388,862	\$ 4,545,558	\$ 12,884,017
Mortgage/Asset-Backed Securities:					
Commercial	-	-	-	2,544,997	2,544,997
Government	-	-	67,927	10,798,607	10,866,534
Federal Agency Securities (non-callable)	-	1,091,318	976,718	-	2,068,036
Corporate Bonds	164,181	103,543	2,306,868	6,648,768	9,223,360
Money Market Mutual Funds	1,177,833	-	-	-	1,177,833
Subtotal	\$ 4,711,944	\$ 1,774,528	\$ 7,740,375	\$ 24,537,930	38,764,777
Real Estate Investment Fund					7,228,028
Equity Mutual Funds					66,243,537
Total Investments					\$ 112,236,342

CONTRA COSTA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
Year Ended June 30, 2012

Fair Value Highly Sensitive to Change in Interest Rates – The terms of a debt investment may cause its fair value to be highly sensitive to interest rate changes. The Plan has invested in mortgage-backed securities (MBS) and commercial mortgage-backed securities (CMBS), which are mortgage-backed bonds that pay pass-through rates with varying maturities. The fair values of MBS and CMBS are considered sensitive to interest rate changes because they have embedded options, which are triggers related to quantities of delinquencies or defaults in the loans backing the mortgage pool. If a balance of delinquent loans reaches a certain threshold, interest and principal that would be used to pay junior bondholders is instead directed to pay off the principal balance of senior bondholders, shortening the life of the senior bonds.

The Plan's investments include the following investments that are highly sensitive to interest rate fluctuations to a greater degree than already indicated above:

<u>Investment Type</u>	<u>Average Coupon Rate</u>	<u>Average Maturity (in years)</u>	<u>2012 Fair Value</u>	<u>Percentage of Total Investments</u>
Mortgage - Backed Securities	4.59%	2.97	\$ 13,411,531	12%

Credit Risk - Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

Presented below is the actual rating as of June 30, 2012, for each investment type as provided by Moody's Investors Service.

<u>Investment Rating</u>	<u>Federal Agency Securities</u>	<u>Asset Backed Securities</u>	<u>Money Market Funds</u>	<u>Corporate Bonds</u>	<u>Totals</u>
Aaa	\$ 2,068,036	\$ 13,111,454	\$ 1,177,833	\$ -	\$ 16,357,323
Aa2	-	235,793	-	-	235,793
Aa3	-	-	-	104,699	104,699
A1	-	-	-	183,926	183,926
A2	-	64,284	-	713,996	778,280
A3	-	-	-	2,105,471	2,105,471
Baa1	-	-	-	1,281,090	1,281,090
Baa2	-	-	-	2,919,274	2,919,274
Baa3	-	-	-	1,692,588	1,692,588
Ba1	-	-	-	111,816	111,816
Ba2	-	-	-	110,500	110,500
Subtotal	<u>\$ 2,068,036</u>	<u>\$ 13,411,531</u>	<u>\$ 1,177,833</u>	<u>\$ 9,223,360</u>	<u>25,880,760</u>
Exempt from Ratings Disclosure:					
U.S. Treasury Securities					12,884,017
Real Estate Investment Funds					7,228,028
Equity Mutual Funds					66,243,537
Total					<u>\$ 112,236,342</u>

CONTRA COSTA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
Year Ended June 30, 2012

Concentration of Credit Risk - This is the risk that the failure of any one issuer would place an undue financial burden on the District. Information regarding significant investments at June 30, 2012, (other than U.S. Government or U.S. Government guaranteed obligations, mutual funds, external investment pools and other pooled investments) in any organization that represents in excess of 5% of the fiduciary fund's net assets is \$7,256,553 in the Federal National Mortgage Association.

Custodial Credit Risk - Custodial credit risk for cash on deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, the Plan will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

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

The Plan invests in individual investments and in investment pools. Individual investments are evidenced by specific identifiable securities instruments, or by an electronic entry registering the owner in the records of the institution issuing the security, called the book entry system. In order to increase security, the Plan employs the Trust Department of a bank or trustee as the custodian of certain Plan investments, regardless of their form.

Other Post-Employment Benefits Trust

Investments Authorized by the Trust's Investment Policy - The Trust's investment policies authorize the Trust to invest in financial instruments in three broad investment categories: domestic fixed income, equity funds, and real estate. These financial instruments can include, but are not limited to, corporate bonds, commercial paper, U.S. government securities, common and preferred stock, real estate investment trusts, and mutual funds. Domestic fixed income investments may include futures and options contracts in order to provide added flexibility in managing the fixed income portfolio.

The District Board is authorized to designate its investment manager to manage the assets under their supervision subject to the laws of the State of California and the Investment Guidelines established by the District Board. Allocation of assets to the investment managers is determined by the District Board to accommodate changing conditions and laws. The long range asset allocation goal is as follows:

Domestic Fixed Income	40%
Equity Funds	55%
Real Estate	5%

The composite asset allocation goal is pursued by the Trust on a long-term basis and revised if significant changes occur within the economic and/or capital market environment. Progress toward the goal is reviewed at least annually.

Classification - The Trust's investments totaled \$14,087,695 at June 30, 2012.

CONTRA COSTA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
Year Ended June 30, 2012

Interest Rate Risk - Interest rate risk is the risk that changes in market rates will adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Trust generally manages its interest rate risk by holding investments to maturity.

Information about the sensitivity of the fair values of the Trust's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Trust's investments by maturity or earliest call date:

Investment Type	Maturities				Total
	12 Months or less	13 to 24 Months	25 to 60 Months	More than 60 Months	
U.S. Treasury Securities					
Non-Callable	\$ -	\$ -	\$ 328,568	\$ 330,936	\$ 659,504
Federal Agency Securities					
Non-Callable	50,285	-	-	955,431	1,005,716
Corporate Bonds	99,423	106,743	677,679	1,781,876	2,665,721
Municipal Bonds	-	-	-	284,240	284,240
Subtotal	<u>\$ 149,708</u>	<u>\$ 106,743</u>	<u>\$ 1,006,247</u>	<u>\$ 3,352,483</u>	4,615,181
Equity Securities					4,104,013
Equity Mutual Funds					5,368,501
Total Investments					<u>\$ 14,087,695</u>

Credit Risk - Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of June 30, 2012, for each investment type as provided by Moody's Investors Service.

Investment Rating	2011			Totals
	Municipal Bonds	Federal Agency Securities	Corporate Bonds	
Aaa	\$ -	\$ 1,005,716	\$ 556,360	\$ 1,562,076
Aa1	91,568	-	-	91,568
Aa2	73,959	-	59,050	133,009
Aa3	50,417	-	60,114	110,531
A1	47,147	-	168,299	215,446
A2	-	-	408,958	408,958
A3	21,149	-	266,264	287,413
Baa1	-	-	508,185	508,185
Baa2	-	-	545,069	545,069
Baa3	-	-	93,422	93,422
Subtotal	<u>\$ 284,240</u>	<u>\$ 1,005,716</u>	<u>\$ 2,665,721</u>	3,955,677
Exempt from Ratings Disclosure:				
U.S. Treasury Securities				659,504
Equity Securities				4,104,013
Equity Mutual Funds				5,368,501
Total				<u>\$ 14,087,695</u>

CONTRA COSTA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
Year Ended June 30, 2012

Concentration of Credit Risk - This is the risk that the failure of any one issuer would place an undue financial burden on the District. The District did not have significant investments at June 30, 2012, that are in excess of 5% of the fiduciary fund's net assets.

Custodial Credit Risk - Custodial credit risk for cash on deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, the Trust will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

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

The Trust invests in individual investments and in investment pools. Individual investments are evidenced by specific identifiable securities instruments, or by an electronic entry registering the owner in the records of the institution issuing the security, called the book entry system. In order to increase security, the Trust employs the Trust Department of a bank or trustee as the custodian of certain Trust investments, regardless of their form.

3 CAPITAL ASSETS

Additions, Retirements, and Transfers - Capital assets balances and activity are summarized below:

	Balance at June 30, 2011	Additions	Retirements	Transfers	Balance at June 30, 2012
Capital assets not being depreciated:					
Land and land rights	\$ 249,214,306	\$ 6,709,568	\$ -	\$ -	\$ 255,923,874
Construction in progress	80,981,335	83,405,718	-	(34,175,640)	130,211,413
Total capital assets not being depreciated	<u>330,195,641</u>	<u>90,115,286</u>	<u>-</u>	<u>(34,175,640)</u>	<u>386,135,287</u>
Capital assets being depreciated:					
Utility plant	1,177,528,672	940,568	(369,110)	34,175,640	1,212,275,770
Canal system	21,130,040	-	-	-	21,130,040
Total capital assets being depreciated	<u>1,198,658,712</u>	<u>940,568</u>	<u>(369,110)</u>	<u>34,175,640</u>	<u>1,233,405,810</u>
Less accumulated depreciation for:					
Utility plant	(344,897,567)	(28,829,167)	357,702	-	(373,369,032)
Canal system	(8,024,387)	(262,443)	-	-	(8,286,830)
Total accumulated depreciation	<u>(352,921,954)</u>	<u>(29,091,610)</u>	<u>357,702</u>	<u>-</u>	<u>(381,655,862)</u>
Net capital assets being depreciated	<u>845,736,758</u>	<u>(28,151,042)</u>	<u>(11,408)</u>	<u>34,175,640</u>	<u>851,749,948</u>
Total capital assets, net	<u>\$ 1,175,932,399</u>	<u>\$ 61,964,244</u>	<u>\$ (11,408)</u>	<u>\$ -</u>	<u>\$ 1,237,885,235</u>

CONTRA COSTA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
Year Ended June 30, 2012

Capacity Agreements with the City of Brentwood - The District entered into a long-term treated water agreement with the City of Brentwood (City) in 2000. This agreement was subsequently amended in 2003. Under the 2003 amendment, the City purchased a six million gallon per day capacity right in the Plant for \$10 million. The District retains complete ownership in the Plant.

In 2004, the District entered into a separate agreement to design, construct and operate for the City a dedicated water treatment plant, the CCWD/City of Brentwood Water Treatment Plant (Brentwood WTP). The agreement was amended in December 2006 to clarify the terms and conditions of the original agreement. Brentwood WTP was placed in service July 2008. Under the terms of the agreement, the District owns the plant and is responsible for all aspects of ownership including maintaining the plant in good working order. The City holds an exclusive capacity right in the plant and is responsible to reimburse the District for all plant expenditures including, operating, maintenance, and subsequent capital expenditures.

Contra Costa Canal System - Pursuant to an agreement between the District and the United States Government (United States) dated June 28, 1972, the District has the right to acquire specific quantities of water from the United States Bureau of Reclamation (USBR). Under the terms of the agreement, the United States was responsible for constructing the Contra Costa Canal System, which includes reservoirs, transmission, distribution, pumping and various facilities required to deliver the water to the District. The District has the responsibility for operating and maintaining the facilities.

Construction in Progress - Construction in Progress at June 30, 2012, was comprised of the following:

	Expended to Date	Projected Remaining Costs	Estimated Completion Date
District Center Building Improvements	\$ 549,213	\$ 7,691,787	2015
Los Vaqueros Expansion 275TAF Federal/State Studies	28,827,680	8,233,320	2015
Los Vaqueros Expansion 160TAF Expansion	81,854,824	7,324,449	2013
Los Vaqueros Energy Recovery	7,228,310	1,179,700	2013
Treated Water Facility Improvement Program	1,697,889	3,007,511	*
Pipeline Renewal/Replacement Program	1,295,597	5,730,865	*
Treated Water Reservoir Rehabilitation Program	2,122,460	2,126,366	*
Applicant Funded Projects	1,323,014	2,951,582	*
Rock Slough Fish Screen	968,759	40,000	2013
Shortcut Pipeline Improvements	373,239	12,209,761	2017
Canal Replacement	941,809	19,501,191	2015
Untreated Water Facility Improvement Program	741,728	6,728,030	*
Water Treatment Plant Improvements	842,069	7,788,834	*
Other Projects & Programs	1,444,822	12,266,129	*
Total	<u>\$ 130,211,413</u>	<u>\$ 96,779,525</u>	

* Completed segments of these projects will be transferred out when placed into service.

CONTRA COSTA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
Year Ended June 30, 2012

4 CERTAIN NONCURRENT LIABILITIES

Advances for Construction - The District records deposits from contractors for the design and construction of facilities to provide water services as advances for construction. Changes in this account for the year ended June 30, 2012, were as follows:

Balance, July 1, 2011	\$	4,445,696
Deposits received		2,548,720
Earned revenue or deposits refunded		<u>(4,324,326)</u>
Balance, June 30, 2012	\$	<u><u>2,670,090</u></u>

Unearned Revenue and Other - The District records facility reserve charges as unearned revenues and amortizes such revenue over the life of the underlying agreement. Changes in this account for the year ended June 30, 2012, were as follows:

Balance, July 1, 2011	\$	976,651
Revenue recognized		<u>(233,857)</u>
Balance, June 30, 2012	\$	<u><u>742,794</u></u>

CONTRA COSTA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
Year Ended June 30, 2012

5 LONG-TERM LIABILITIES

Composition and Changes - The District generally incurs long-term debt to finance projects or purchase assets, which will have useful lives equal to or greater than the related debt. The District's debt issues and transactions are summarized below and discussed in detail thereafter.

	Original Issue Amount	Balance June 30, 2011	Additions	Retirements	Balance June 30, 2012	Amount due within one year
Water Revenue Notes:						
2010 Series A,						
1.00 - 4.00%, due 10/01/15	\$ 127,630,000	\$ 127,630,000	\$ -	\$ 30,000,000	\$ 97,630,000	\$ 27,830,000
2011 Series B,						
3.629 - 4.842%, due 10/01/16	59,820,000	-	59,820,000	-	59,820,000	-
Add: Unamortized premium		3,442,264	7,726,468	2,954,175	8,214,557	2,883,864
Water revenue notes, net		<u>131,072,264</u>	<u>67,546,468</u>	<u>32,954,175</u>	<u>165,664,557</u>	<u>30,713,864</u>
Water Revenue Bonds:						
1992 Series E Refunding,						
3.50 - 6.10%, due 10/01/18	35,340,000	3,810,000	-	1,845,000	1,965,000	1,965,000
2001 Series K,						
3.5 - 4.5%, due 10/01/31	113,045,000	74,790,000	-	59,875,000	14,915,000	-
2002 Series L Refunding,						
3.00 - 5.00%, due 10/01/32	120,715,000	90,850,000	-	3,545,000	87,305,000	3,685,000
2003 Series M Refunding,						
2.00 - 5.00%, due 10/01/26	86,620,000	69,955,000	-	650,000	69,305,000	670,000
2005 Series N Refunding,						
5.00%, due 10/01/26	114,555,000	114,555,000	-	-	114,555,000	-
2007 Series O Refunding,						
4.25 - 5.00%, due 10/01/29	67,710,000	63,100,000	-	3,065,000	60,035,000	3,190,000
2011 Series P Refunding,						
2.00 - 5.00%, due 10/01/25	46,705,000	-	46,705,000	-	46,705,000	6,325,000
2002 Series A Refunding,						
2.5 - 5.00%, due 10/01/20	46,660,000	30,020,000	-	2,450,000	27,570,000	2,550,000
State Revolving Fund Loans:						
2001 State Revolving Fund Loan						
2.5132%, due 07/01/22	15,137,776	9,612,014	-	730,619	8,881,395	749,096
2004 State Revolving Fund Loan						
2.39%, due 07/01/24	2,000,000	1,405,088	-	93,355	1,311,733	95,599
2005 State Revolving Fund Loan						
2.9%, due 07/01/24	5,942,427	4,311,053	-	274,102	4,036,951	280,692
Less: Unamortized discounts, premiums, and deferred loss on refundings		(22,293,912)	2,489,454	(1,512,126)	(18,292,332)	(792,341)
Total bonds and loans payable, net		<u>440,114,243</u>	<u>49,194,454</u>	<u>71,015,950</u>	<u>418,292,747</u>	<u>18,718,047</u>
Total long-term debt, net		<u>\$ 571,186,507</u>	<u>\$ 116,740,922</u>	<u>\$ 103,970,125</u>	<u>\$ 583,957,304</u>	<u>\$ 49,431,911</u>

CONTRA COSTA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
Year Ended June 30, 2012

Description of the District's Long-Term Debt Issues

2010 Water Revenue Notes, Series A – The District issued Water Revenue Notes on June 30, 2010, for refinancing \$79,000,000 of outstanding Tax-Exempt Commercial Paper Notes and for funding \$53,505,118 of future construction projects. The Water Revenue Notes are special obligations of the District and are payable solely from and secured by a pledge of net revenues of the Water System. Principal payments are payable annually on October 1. Interest payments are payable semi-annually on April 1 and October 1.

2011 Water Revenue Notes, Series B – The District issued Water Revenue Notes on July 6, 2011, for funding \$67,546,468 of future construction projects. The Water Revenue Notes are special obligations of the District and are payable solely from and secured by a pledge of net revenues of the Water System. Principal payments are payable annually on October 1. Interest payments are payable semi-annually on April 1 and October 1.

1992 Water Revenue Refunding Bonds, Series E – The District issued Water Revenue Bonds on May 15, 1992, to refund bonds issued in 1988 and to provide funds to finance the costs of acquisition of land, environmental and engineering work and other expenditures related to the acquisition and construction of a dam, reservoir and associated water conveyance facilities for the District's Water System. The Water Revenue Bonds are special obligations of the District and are payable solely from and secured by a pledge of net revenues of the Water System. Principal payments are payable annually on October 1 and interest payments semi-annually on April 1 and October 1. On December 3, 2002, proceeds from the 2002 Water Revenue Refunding Bonds, Series L (described below), were used to refund \$19,560,000 of the Series E bonds.

2001 Water Revenue Bonds, Series K – The District issued Water Revenue Bonds on April 1, 2001, to provide funds for the refinancing of \$66,355,000 of outstanding Water Revenue Bonds, Series G Bonds, for the refinancing of \$40,000,000 of outstanding Tax-Exempt Commercial Paper Notes, for the funding of the Bond Reserve Fund, and for the payment of costs of issuance of the Series K Bonds. The Water Revenue Bonds are special obligations of the District and are payable solely from and secured by a pledge of net revenues of the Water System. Principal payments are payable annually on October 1. Interest payments are payable semi-annually on April 1 and October 1. On July 6, 2011, proceeds from the 2011 Water Revenue Refunding Bonds, Series P (described below), were used to refund \$46,705,000 of the Series K bonds.

2002 Water Revenue Refunding Bonds, Series L – The District issued Water Revenue Bonds on December 3, 2002, to provide funds for refunding \$1,605,000 of outstanding Water Revenue Bonds Series D, \$19,560,000 of outstanding Water Revenue Bonds Series E, \$38,625,000 Water Revenue Bonds Series F, for the refinancing of \$60,000,000 of outstanding Tax-Exempt Commercial Paper Notes, and for the payment of the costs of issuance of the Series L Bonds. The Water Revenue Bonds are special obligations of the District and are payable solely from and secured by a pledge of net revenues of the Water System. Principal payments are payable annually on October 1. Interest payments are payable semi-annually on April 1 and October 1.

2003 Water Revenue Refunding Bonds, Series M – The District issued Water Revenue Bonds on July 23, 2003, to provide funds for refunding \$72,010,000 of outstanding Water Revenue Bonds Series G, and \$10,700,000 of outstanding Tax-Exempt Commercial Paper Notes. The Water Revenue Bonds are special obligations of the District and are payable solely from and secured by a pledge of net revenues of the Water System. Principal payments are payable annually on October 1. Interest payments are payable semi-annually on April 1 and October 1.

CONTRA COSTA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
Year Ended June 30, 2012

2005 Water Revenue Refunding Bonds, Series N – The District issued Water Revenue Bonds on March 9, 2005, to provide funds for refunding \$114,555,000 of outstanding Water Revenue Bonds Series G. In accordance with the District’s policy, the difference between the refunded amount and the carrying value of the refunded bonds, which amounted to \$23,607,795 has been capitalized and included in unamortized discounts and issuance costs and amortized over the remaining life of the refunded debts. The Water Revenue Bonds are special obligations of the District and are payable solely from and secured by a pledge of net revenues of the Water System. Principal payments commence on October 1, 2020, and are payable annually on October 1. Interest payments commence on October 1, 2005, and are payable semi-annually on April 1 and October 1.

2007 Water Revenue Refunding Bonds, Series O – The District issued Water Revenue Bonds on July 5, 2007, for refunding a portion of the District’s outstanding Water Revenue Refunding Bonds, Series H and Water Revenue Refunding Bonds, Series J. The Water Revenue Refunding Bonds are special obligations of the District and are payable solely from and secured by a pledge of net revenues of the Water System. Principal payments are payable annually on October 1. Interest payments are payable semi-annually on April 1 and October 1.

2011 Water Revenue Refunding Bonds, Series P – The District issued Water Revenue Bonds, including \$4,997,355 in premiums, on July 6, 2011, for refunding \$46,705,000 of the District’s outstanding Water Revenue Refunding Bonds, Series K. The refunding of the Series K Bonds resulted in an accounting deferred loss of \$2,507,901. The refunding resulted in a net present value savings to the District in debt service of \$5,412,141. The Water Revenue Refunding Bonds are special obligations of the District and are payable solely from and secured by a pledge of net revenues of the Water System. Principal payments are payable annually on October 1. Interest payments are payable semi-annually on April 1 and October 1.

2002 Contra Costa Water Authority, Water Treatment Revenue Refunding Bonds, Series A – On December 3, 2002, the Authority issued 2002 Water Treatment Revenue Bonds Series A to refund \$45,970,000 of the outstanding 1993 Series A Bonds and for the issuance costs of the 2002 Series A Bonds. The Water Revenue Bonds are special obligations of the Authority and are payable solely from revenue. Principal payments are payable annually on October 1. Interest payments are payable semi-annually on April 1 and October 1.

2001 State Revolving Fund Loan – On June 10, 2002, the District obtained a \$15,137,776 loan from the State of California, proceeds of which were used to pay off a portion of the \$20,000,000 Tax-Exempt Commercial Paper (See *Short-Term Borrowing* below). Principal and interest payments are due semi-annually on January 1 and July 1.

2004 State Revolving Fund Loan - On October 29, 2003, the District obtained a \$2,000,000 loan from the State of California, proceeds of which were used to assist in meeting safe drinking water standards for the water supply. Principal and interest payments are due semi-annually on January 1 and July 1.

2005 State Revolving Fund Loan – During the fiscal year ended June 30, 2005, the District obtained a \$5,942,427 loan from the State of California, proceeds of which were used to assist in meeting safe drinking water standards for the water supply. Principal and interest payments are due semi-annually on January 1 and July 1.

CONTRA COSTA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
Year Ended June 30, 2012

Pledged Revenues – The District has pledged future water revenues, net of specified operating expenses, to repay the various water revenue notes and bonds above. The water revenue notes and bonds are payable solely from and secured by a pledge of net revenues of the District’s Water System. The total principal and interest remaining to be paid on the water revenue notes and bonds is \$773,588,628. Principal and interest paid for the current year and total customer net revenues were \$74,036,577 and \$95,369,483, respectively.

Debt Service Requirements - Annual debt service requirements are shown below for the above debt issues:

For the Year Ending June 30:	Business-Type Activities	
	Principal	Interest
2013	\$ 47,340,388	\$ 25,196,206
2014	55,188,380	23,680,199
2015	51,217,066	21,696,305
2016	80,406,470	19,154,681
2017	47,811,604	16,440,987
2018 - 2022	143,886,942	61,996,888
2023 - 2027	127,264,230	29,093,191
2028 - 2032	37,225,000	6,033,277
2033	3,695,000	184,750
Totals	<u>\$ 594,035,080</u>	<u>\$ 203,476,484</u>

The Water Revenue Bonds and Series A of the Water Treatment Revenue Refunding Bonds are callable, at a premium, in the tenth and eleventh years after issuance and are callable, without a premium thereafter.

The District is subject to certain revenue bond covenants, the most restrictive of which requires the setting of rates and charges to yield net revenue (as defined) equal to at least 125% of the current annual debt service requirements of the Water Revenue Bonds and the Water Treatment Revenue Refunding Bonds. Management believes the District is in compliance with all applicable bond covenants.

Defeased Bonds - In prior years, the District defeased various bond issues by placing the proceeds of the new bonds in separate irrevocable trust funds to provide for all future debt service payments on the old bonds or to call bonds, when economically beneficial. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District’s financial statements. At June 30, 2012, \$408,165,000 of bonds outstanding are considered defeased (\$32,230,000 of 1990 Water Treatment Revenue Bonds, Series A; \$19,250,000 of 1988 Water Revenue Bonds, Series B; \$28,495,000 of 1990 Water Revenue Bonds, Series C; \$28,565,000 of 1992 Water Revenue Bonds, Series D; \$252,920,000 of outstanding 2010 to 2021 maturities of 1994 Water Revenue Bonds, Series G; and \$46,705,000 of 2001 Water Revenue Bonds, Series K from the most recent refunding in July 2011).

Short-Term Borrowing – During fiscal years 2007-2010, the District utilized a Commercial Paper Program with a \$100 million limit, as approved by the Board of Directors, to cash flow construction of the City of Brentwood Water Treatment Plant and the Middle River Intake Project. The proceeds of the Water Revenue Notes, Series A, were used to retire all outstanding Commercial Paper borrowings in fiscal year 2010. The Commercial Paper Program is dormant and reactivation would require Board approval and authorization of a new letter of credit.

CONTRA COSTA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
Year Ended June 30, 2012

6 RETIREMENT PLAN

Plan Description - The Plan, established under a trust agreement made on February 17, 1962, and subsequently amended, is a single-employer defined benefit retirement plan in which all permanent and full-time employees and members of the Board are eligible to participate. Employee participants are divided into five primary classifications for coverage: clerical/maintenance, confidential, professional/supervisory, unrepresented, and Board Members. The Plan provides retirement and disability and death benefits to all eligible participants.

Benefit and contribution provisions are established by the trust agreement. The Plan is managed by the Retirement Plan Committee and is administered by an individual trustee who is appointed by the District's Board. All recommendations of the Retirement Plan Committee are subject to review and approval by the District's Board.

A stand-alone financial report of the Plan is available at the District's office located at 1331 Concord Avenue, Concord, California 94520.

Funding Policy - The District's annual covered payroll for employees participating in the Plan for the year ended June 30, 2012 was estimated to be \$27,893,000. The District's fiscal year 2012 payroll for all employees was estimated to be \$31,811,700. Benefit and contribution provisions are established by the trust agreement creating the Plan. Participants are required to contribute a predetermined percentage of their base salary ranging from 1% to 8% depending upon the participant's classification. In addition, the District contributes on behalf of the participants, from 0% to 5% of base salary, depending upon classification.

The District is required to contribute the remaining amounts necessary to fund the Plan as determined by the Plan's actuary. The District's contribution rate, as a percentage of covered payroll, was 13.24%, or \$2,845,200, as determined by the June 30, 2011, (most recent) actuarial report.

The District's annual pension cost and schedule of contributions for the past three years are as follows:

Fiscal Year	Annual Pension Cost	Percentage of Annual Pension Cost Contributed	Net Pension Obligation
6/30/2010	\$ 2,168,156	100%	\$ -
6/30/2011	2,700,384	100%	-
6/30/2012	3,324,636	100%	-

The Plan's actuarial value and funding progress as of June 30, 2011, is set forth below at the most recent actuarial valuation date:

Amounts In Thousands						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Over-funded (Under-funded) AAL (a-b)	Funding Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered - Payroll ((a-b)/c)
June 30, 2011	\$ 105,068	\$ 122,542	\$ (17,474)	85.7%	\$ 27,893	-62.65%

CONTRA COSTA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
Year Ended June 30, 2012

Actuarial Method and Assumptions - The information presented in the required supplementary schedules was determined as part of the actuarial valuations. Additional information as of the latest actuarial valuation follows:

Valuation Date	June 30, 2011
Actuarial cost method	Entry age actuarial
Amortization method	Level percent open
Remaining amortization period	15 years
Asset valuation method	Five-year smoothed market value
Actuarial assumptions:	
Investment rate of return*	8%
Projected salary increases*	5%
Cost-of-living adjustments	Based on economic trends

*Includes inflation at 4%

A schedule of funding progress, that shows multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits, can be found in the required supplementary information.

7 POST-EMPLOYMENT BENEFITS OTHER THAN RETIREMENT

Trust Description - The District's employees are eligible for post-employment health care benefits (OPEB) if they directly retire from employment at the District. These benefits are paid through the Trust. To be eligible for retirement medical, an active employee must be at least age 50 and have a minimum of 5 years of service (10 years of service for Clerical/Maintenance and District Board).

As of June 30, 2012, there were 172 retirees or their beneficiaries receiving these health care benefits. These benefits are fully funded by the District in accordance with the District's Code of Regulations and with the Memorandum of Understanding for employees in the Clerical/Maintenance Representation Unit. These benefits are accounted for on a pay-as-you-go basis through payments to an insurance company. The cost of these benefits totaled \$2,229,779 in fiscal year 2012.

The activities of the Trust are accounted for in the Other Post-Employment Benefits Trust Fund. A stand-alone financial report of the Trust is available at the District's office located at 1331 Concord Avenue, Concord, California 94520.

Funding Policy and Actuarial Assumptions - The District's policy is to prefund these benefits by accumulating assets in the Trust Fund discussed above. The annual required contribution (ARC) was determined by an actuarial valuation as of July 1, 2011 using the actuarial cost method. The actuarial assumptions included (a) 8% investment rate of return, and (b) 8% health inflation rate (decreasing 1% per year to a minimum 4%). The actuarial methods and assumptions used include techniques that smooth the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

Actuarial calculations reflect a long-term perspective and actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. The District's OPEB unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll using a 30 year amortization period.

CONTRA COSTA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
Year Ended June 30, 2012

Generally accepted accounting principles permit assets to be treated as OPEB assets and deducted from the actuarial accrued liability when such assets are placed in an irrevocable trust or equivalent arrangement. On June 4, 2008, the District deposited \$7,340,396 to prefund the pay-as-you-go benefits.

As a result, the District has calculated and recorded the net OPEB asset, representing the difference between the annual required contribution (ARC), interest, adjustment to the ARC, and contributions, as presented below:

Annual required contribution	\$	4,807,000
Interest on net OPEB asset		(256,201)
Adjustment to annual required contribution		284,471
Annual OPEB cost		4,835,270
Contributions made		(4,094,586)
Change in net OPEB asset		740,684
Net OPEB asset - beginning of year		(3,202,512)
Net OPEB asset - end of year	\$	(2,461,828)

The District's annual OPEB cost and actual OPEB cost contributed for the past three years is as follows:

Fiscal Year	Annual OPEB Cost	Actual Contribution	Percentage of Annual OPEB Cost Contributed	Change in Net OPEB Asset	Net OPEB Asset
6/30/2010	\$ 4,067,892	\$ 2,845,000	70%	\$ 1,222,892	\$ (3,043,778)
6/30/2011	3,494,746	3,653,480	105%	(158,734)	(3,202,512)
6/30/2012	4,835,270	4,094,586	85%	740,684	(2,461,828)

The schedule of funding progress shown as required supplementary information presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Funded status from the July 1, 2011, actuarial study is presented below:

Amounts in Thousands						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded Actuarial Accrued Liability (UAAL) (a-b)	Funding Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered - Payroll ((a-b)/c)
July 1, 2011	\$ 12,560	\$ 71,409	\$ (58,849)	17.6%	\$ 27,893	-211.0%

As of June 30, 2012, the Trust has accumulated assets of \$15,087,695 that will be used to pay future OPEB benefits. The assets held at June 30, 2012, represent a funded ratio of 21% based on the latest actuarial valuation dated July 1, 2011.

CONTRA COSTA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
Year Ended June 30, 2012

Actuarial Method and Assumptions – Actuarial valuations of an on-going plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contribution of the District are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The information presented in the required supplementary schedules was determined as part of the actuarial valuations. Additional information as of the latest actuarial valuation follows:

Valuation Date	July 1, 2011
Actuarial cost method	Entry Age Normal
Amortization method	Level dollar open
Remaining amortization period	30 years
Asset valuation method	Five-year smoothed market value
Actuarial assumptions:	
Investment rate of return*	8%
Projected medical trend rate**	4 - 8%
Participation in postretirement medical plan	100%

*Includes inflation at 4%

**Rate starts at 8% annually and declines over the next 5 years to 4%

8 RISK MANAGEMENT

The District has purchased commercial insurance for property and liability in the insurance marketplace through Arthur J. Gallagher & Co., the District’s selected insurance broker/consultant. During the fiscal year which ended June 30, 2012, the District paid \$453,641 for current year coverage.

The District purchased workers’ compensation insurance through Special District Risk Management Authority. During the fiscal year ended June 30, 2012, the District paid \$598,000 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 District has not incurred a claim that has exceeded its insurance coverage limits in any of the last three years.

CONTRA COSTA WATER DISTRICT
Notes to the Basic Financial Statements (Continued)
Year Ended June 30, 2012

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

Type of Coverage	Coverage Limit	Retention/Deductible
General Liability, including Employment		
Practices Liability	\$ 30,000,000	\$ 500,000
Property	150,000,000	100,000
DIC - SCADA (Earthquake)	1,500,000	100,000
Flood	150,000,000	100,000
Crime	50,000 - 1,000,000	0 - 10,000
Public Official Bond	25,000	No deductible
Hull Collision, Protection & Indemnity	53,400 - 1,000,000	500 - 5,000
Workers' Compensation	Statutory	No deductible
Employers Liability	1,000,000	No deductible

9 COMMITMENT AND CONTINGENT LIABILITIES

The District is a defendant in a number of lawsuits, which have arisen in the normal course of business including challenges over certain rates and charges. The ultimate outcome of these matters is not presently determinable. In the opinion of the District, these actions when finally adjudicated will not have a material adverse effect on the financial position of the District.

10 PRIOR PERIOD ADJUSTMENT

In connection with the preparation of the financial statements for the year ended June 30, 2012, the District determined that certain payroll-related reimbursements had been miscoded. When converting to the accounting system in July 2002, transactions related to workers' compensation and state disability reimbursements, from conversion through August 2010, were recorded as accruals, rather than reductions in operating expenses (labor costs). The cumulative result was an overstatement of \$733,210 in both accruals and operating expenses. The correction results in an increase in net assets. As such, the District has made a prior period adjustment and restated its financial statements accordingly.

11 SUBSEQUENT EVENTS

On August 8, 2012, the District issued \$87,115,000 in Series Q Water Revenue Bonds, along with other monies held in escrow, to refinance \$83,620,000 of Series L Water Revenue Bonds and the remaining \$14,915,000 of Series K Water Revenue Bonds related to the original construction of Los Vaqueros Reservoir. On the same date, the Authority issued \$22,940,000 in 2012 Series A Water Treatment Revenue Bonds, along with other monies held in escrow, to refinance the remaining \$25,020,000 of CCWA's 2002 Series A Water Treatment Revenue Bonds. The two transactions will yield debt service savings of over \$23,100,423 over the term of the bonds.

On September 5, 2012, the District approved an Extendable Municipal Commercial Paper (EMCP) Program. The EMCP Program provides the District with a lower-cost, short-term funding alternative to using Water Revenue Notes. Program authorization is for \$80,000,000, with the initial issuance of \$50,000,000 on September 19, 2012. Of this amount, \$30,000,000 was used to refinance Series A Water Revenue Notes on October 1, 2012. The remaining \$20,000,000 will be used in support of capital projects.

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Required Supplementary Information (Unaudited)

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CONTRA COSTA WATER DISTRICT
Required Supplementary Information (Unaudited)
Schedules of Funding Progress (In thousands)
Year Ended June 30, 2012

CONTRA COSTA WATER DISTRICT RETIREMENT PLAN

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Over-funded (Under-funded) AAL (a-b)	Funding Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered - Payroll ((a-b)/c)
June 30, 2009	\$ 102,581	\$ 105,933	\$ (3,352)	96.8%	\$ 26,049	-12.87%
June 30, 2010	102,277	113,841	(11,564)	89.8%	26,769	-43.20%
June 30, 2011	105,068	122,542	(17,474)	85.7%	27,893	-62.65%

CONTRA COSTA WATER DISTRICT OTHER POST-EMPLOYMENT BENEFITS TRUST

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((a-b)/c)
July 1, 2007	\$ -	\$ 48,374	\$ (48,374)	-	\$ 22,991	(210.40)%
July 1, 2009	6,844	59,586	(52,742)	11%	26,049	(202.47)%
July 1, 2011	12,560	71,409	(58,849)	18%	27,893	(210.98)%

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Supplementary Information

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CONTRA COSTA WATER DISTRICT
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
RETIREMENT PLAN AND OTHER POST-EMPLOYMENT BENEFIT TRUST FUNDS
AS OF JUNE 30, 2012

	Retirement Plan Trust Fund	Other Post-Employment Benefit Trust Fund	Total
ASSETS:			
Cash and cash equivalents	\$ 1,177,833	\$ -	\$ 1,177,833
Investments, at fair value:			
U.S. Treasury securities	12,884,017	659,504	13,543,521
Federal agency securities	2,068,036	1,005,716	3,073,752
Mortgage/Asset - Backed securities	13,411,531	-	13,411,531
Real estate investment fund	7,228,028	-	7,228,028
Corporate bonds	9,223,360	2,665,721	11,889,081
Equity securities	-	4,104,013	4,104,013
Equity mutual funds	66,243,537	5,368,501	71,612,038
Municipal bonds	-	284,240	284,240
Total investments	<u>111,058,509</u>	<u>14,087,695</u>	<u>125,146,204</u>
Total cash and investments	<u>112,236,342</u>	<u>14,087,695</u>	<u>126,324,037</u>
Receivables:			
Accrued income	295,585	-	295,585
Contribution due from District	160,638	1,000,000	1,160,638
Contribution due from participants	67,855	-	67,855
Total receivables	<u>524,078</u>	<u>1,000,000</u>	<u>1,524,078</u>
Total assets	<u>112,760,420</u>	<u>15,087,695</u>	<u>127,848,115</u>
NET ASSETS:			
Net assets held in trust	<u>\$ 112,760,420</u>	<u>\$ 15,087,695</u>	<u>\$ 127,848,115</u>

**CONTRA COSTA WATER DISTRICT
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
RETIREMENT PLAN AND OTHER POST-EMPLOYMENT BENEFIT TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 2012**

	Retirement Plan Trust Fund	Other Post-Employment Benefit Trust Fund	Total
Additions:			
Contributions:			
District	\$ 3,324,636	\$ 3,541,107	\$ 6,865,743
Paid by the District on behalf of employees	600,909	-	600,909
Paid by employees	1,789,256	553,479	2,342,735
Total contributions	<u>5,714,801</u>	<u>4,094,586</u>	<u>9,809,387</u>
Investment income:			
Net increase (decrease) in fair value of investments	(1,165,257)	377,386	(787,871)
Interest, dividends, and other	2,744,804	349,375	3,094,179
Less: investment expenses	(54,927)	(64,040)	(118,967)
Net investment income	<u>1,524,620</u>	<u>662,721</u>	<u>2,187,341</u>
Total additions	<u>7,239,421</u>	<u>4,757,307</u>	<u>11,996,728</u>
Deductions:			
Distributions paid to participants	6,231,970	2,229,779	8,461,749
Total deductions	<u>6,231,970</u>	<u>2,229,779</u>	<u>8,461,749</u>
Net increase	<u>1,007,451</u>	<u>2,527,528</u>	<u>3,534,979</u>
Net Assets:			
Beginning of year	<u>111,752,969</u>	<u>12,560,167</u>	<u>124,313,136</u>
End of year	<u>\$ 112,760,420</u>	<u>\$ 15,087,695</u>	<u>\$ 127,848,115</u>

APPENDIX B

SUMMARY OF THE RESOLUTION

The following is a summary of certain provisions of the Resolution. This summary is not to be considered a full statement of the terms and conditions contained in the Resolution and accordingly is qualified by reference thereto and is subject to the full text thereof. All capitalized terms not defined in this Official Statement shall have the meanings set forth in the Resolution.

DEFINITIONS

Adjusted Net Revenues for any Fiscal Year means the sum of (i) Net Revenues for such Fiscal Year and (ii) Obligation Service for such Fiscal Year.

Annual Debt Service means for each Fiscal Year the aggregate amount (without duplication) of principal and interest scheduled to become due (either at maturity or by mandatory redemption) and sinking fund payments (or lease or installment purchase payments with separately designated interest and principal components) required to be paid in that Fiscal Year on all Bonds and Parity Debt, less any amounts on deposit in escrow to be applied during that Fiscal Year to pay principal or interest or sinking fund payments (or lease or installment purchase payments with separately designated interest and principal components) on Bonds and Parity Debt.

Assumed Debt Service means for any Fiscal Year the sum of the amount of Annual Debt Service which would be payable if each Excluded Principal Payment were amortized for a period specified by the District (no greater than 30 years from the commencement of amortization) on a substantially level debt service basis, calculated based on an interest rate equal to the rate at which the District could borrow for such period, as certified by a certificate of a financial advisor or investment banker delivered to the Trustee within 30 days of the date of calculation.

Bond Reserve Requirement means, as of any date of calculation, an amount equal to the lesser of (i) Maximum Annual Debt Service on all Bonds then Outstanding, and (ii) 125% of average Annual Debt Service (excluding accrued interest) on all Bonds then Outstanding; provided, however, that (1) such calculations shall initially be made as of the date of issuance of each series of Bonds under the Resolution and the Bond Reserve Requirement shall not increase (but may decrease) from such initial calculation prior to the issuance of an additional series of Bonds under the Resolution and (2) in making such initial calculations, the amount of the maximum Bond Reserve Requirement shall not exceed the sum of (a) the Bond Reserve Requirement as calculated immediately prior to the issuance of such series of Bonds plus (b) 10% of the initial proceeds of such Series.

Bonds means the Contra Costa Water District Water Revenue Bonds and Contra Costa Water District Revenue Refunding Bonds authorized by, and at any time outstanding pursuant to, the Resolution.

Debt Service Coverage Ratio means, for any period of time, the ratio determined by dividing Net Revenues by Maximum Annual Debt Service.

Excluded Principal Payments means each payment of principal (or the principal component of lease or installment purchase payments) of Bonds or Parity Debt which the District determines (on a date not later than the date of issuance of such Bonds or Parity Debt) that the District intends to pay with moneys which are not Revenues. No such determination shall affect the security for such Bonds or Parity Debt or the obligation of the District to pay such payments from Revenues. No payment of principal of

Bonds or Parity Debt may be determined to be an Excluded Principal Payment unless it is due within 30 years from the date of issuance of such Bonds or Parity Debt.

Federal Securities means, with respect to securities acceptable for the defeasance of the Series R Bonds:

- (1) Cash (insured at all times by the Federal Deposit Insurance Corporation);
- (2) Obligations of, or obligations guaranteed as to principal and interest by, the U.S. or any District or instrumentality thereof, when such obligations are backed by the full faith and credit of the U.S. including:
 - U.S. treasury obligations
 - All direct or fully guaranteed obligations
 - Farmers Home Administration
 - General Services Administration
 - Guaranteed Title XI financing
 - Government National Mortgage Association (GNMA)
 - State and Local Government Series

Any security used for defeasance must provide for the timely payment of principal and interest and cannot be callable or prepayable prior to maturity or earlier redemption of the rated debt (excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date).

Investment Securities means, with respect to the investment of proceeds of the Bonds except the Series R Bonds, any investments which at the time are legal investments under the laws of the State for moneys held and then proposed to be invested under the Resolution, including, without limitation, the following:

(i) any bonds or other obligations which as to principal and interest constitute direct obligations of, or are unconditionally guaranteed by, the United States of America, including obligations of any of the Federal agencies set forth in clause (iii) below to the extent unconditionally guaranteed by the United States of America;

(ii) any certificates, receipts, securities or other obligations evidencing ownership of, or the right to receive, a specified portion of one or more interest payments or principal payments, or any combination thereof, to be made on any bond, note, or other obligation described above in clause (i);

(iii) obligations of the Federal National Mortgage Association, the Government National Mortgage Association, Federal Home Loan Banks, Farmers Home Administration and Federal Home Loan Mortgage Association;

(iv) New housing authority bonds issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an annual contributions contract or contracts with the United States of America; or project notes issued by

public agencies or municipalities and fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America;

(v) direct and general obligations of any state of the United States of America or any political subdivision thereof, to the payment of the principal of and interest on which the full faith and credit of such state is pledged, provided that at the time of their purchase such obligations are rated in either of the two highest rating categories by Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Ratings Service, a division of The McGraw-Hill Companies, Inc. ("S&P");

(vi) any bonds or other obligations of any state of the United States of America or any political subdivision thereof (a) which are not callable prior to maturity or as to which irrevocable instructions have been given to the trustee of such bonds or other obligations by the obligor to give due notice of redemption and to call such bonds for redemption on the date or dates specified in such instructions, (b) which are secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or bonds or other obligations of the character described above in clause (i) which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, (c) as to which the principal of and interest on the bonds and obligations of the character described above in clause (i) which have been deposited in such fund along with any cash on deposit in such fund are sufficient to pay the principal of and interest and redemption premium, if any, on the bonds or other obligations described in this clause (vi) on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (vi), as appropriate, and (d) which have been rated in one of the top two rating categories of Moody's and S&P;

(vii) bonds, notes, debentures or other evidences of indebtedness issued or guaranteed by any corporation which are, at the time of purchase, rated by a nationally recognized rating agency in its highest rating category, and by at least one other nationally recognized rating agency in either of its two highest rating categories, for comparable types of debt obligations;

(viii) time deposits or certificates of deposit, whether negotiable or nonnegotiable, issued by any bank or trust company organized under the laws of any state of the United States of America or any national banking association (including the Trustee), provided that such certificates of deposit shall be purchased directly from such a bank, trust company or national banking association and shall be either (1) continuously and fully insured by the Federal Deposit Insurance Corporation, or (2) continuously and fully secured by such securities and obligations as are described above in clauses (i) through (v), inclusive, which shall have a market value (exclusive of accrued interest) at all times at least equal to the principal amount of such certificates of deposit and shall be lodged with the Trustee, as custodian, by the bank, trust company or national banking association issuing such certificates of deposit, and the bank, trust company or national banking association issuing each such certificate of deposit required to be so secured shall furnish the Trustee with an undertaking satisfactory to it that the aggregate market value of all such obligations securing each such certificate of deposit will at all times be an amount equal to the principal amount of each such certificate of deposit and the Trustee shall be entitled to rely on each such undertaking;

(ix) taxable commercial paper, other than that issued by bank holding companies, or tax-exempt commercial paper rated, without giving effect to the addition of a "plus" to any rating, in the highest rating category by a nationally recognized bond rating agency;

(x) variable rate obligations required to be redeemed or purchased by the obligor or its agent or designee upon demand of the holder thereof secured as to such redemption or purchase

requirement by a liquidity agreement with a corporation and as to the payment of interest and principal either upon maturity or redemption (other than upon demand by the holder thereof) thereof by an unconditional credit facility of a corporation, provided that the variable rate obligations themselves are rated, without giving effect to the addition of a "plus" to any rating, in the highest rating categories in respect to its long term rating if any, and in either of the two highest categories in respect to its short term rating by a nationally recognized bond rating agency, and that the corporations providing the liquidity agreement and credit facility have, at the date of acquisition of the variable rate obligation by the Trustee, an outstanding issue of unsecured, uninsured and unguaranteed debt obligations rated, without giving effect to the addition of a "plus" to any rating, in either of the two highest rating categories by a nationally recognized bond rating agency;

(xi) any repurchase agreement with any bank or trust company organized under the laws of any state of the United States or any national banking association (including the Trustee) having a minimum permanent capital of seventy-five million dollars (\$75,000,000) or government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York, which agreement is secured by any one or more of the securities and obligations described in clauses (i), (ii), (iii) or (iv) above;

(xii) any cash sweep or similar account arrangement of the Trustee, the investments of which are limited to investments described in items (i), (ii), (iii), (iv) and (xi) of this definition of Investment Securities and any money market fund, the entire investments of which are limited to investments described in (i), (ii), (iii), (iv) and (xi) of this definition of Investment Securities;

(xiii) bankers' acceptances of any bank (including the Trustee) or savings and loan association, approved by each bond insurer then insuring any of the Bonds and the long-term debt obligations of which, in the case of each rating agency then rating the Bonds, are rated at least equal to the then current rating on the Bonds assigned by such rating agency;

(xiv) shares in a common law trust established pursuant to Title 1, Division 7, Chapter 5 of the California Government Code, which trust is approved by each bond insurer then insuring any of the Bonds and which is rated in one of the two highest rating categories of each rating agency then rating the Bonds; and

(xv) any investment agreement approved by each bond insurer then insuring any of the Bonds with (i) any bank or trust company organized under the laws of any state of the United States of America or any national banking association (including the Trustee) or government bond dealer reporting to, trading with and recognized as a primary dealer by, the Federal Reserve Bank of New York, having a combined capital and surplus of at least \$100,000,000; (ii) any municipal bond insurance company (or any subsidiary of a municipal bond insurance company) if such insurance company's unsecured obligations are rated in the highest rating category of each rating agency then rating the Bonds; (iii) any entity controlled by or under common control with any bond insurer then insuring any of the Bonds if such entity's unsecured obligations are rated in the highest rating category of each rating agency then rating the Bonds; or (iv) any corporation that is organized and operating within the United States of America if (a) the corporation has (or the guarantor of such corporation's obligations has) total assets in excess of \$300,000,000 and (b) the corporation's unsecured obligations (or such guarantor's unsecured obligations) are rated in one of the three highest rating categories of each rating agency then rating the Bonds.

Investment Securities means, with respect to the investment of proceeds of the Series R Bonds, any of the following to the extent permitted by the laws of the State:

(1) Federal Securities and obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including:

- Export-Import Bank
- Rural Economic Community Development Administration
- U.S. Maritime Administration
- Small Business Administration
- U.S. Department of Housing & Urban Development (PHAs)
- Federal Housing Administration
- Federal Financing Bank;

(2) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America:

- Senior debt obligations issued by the Federal National Mortgage Association (FNMA) or the Federal Home Loan Mortgage Corporation (FHLMC)
- Obligations of the Resolution Funding Corporation (REFCORP)
- Senior debt obligations of the Federal Home Loan Bank System
- Senior debt obligations of other U.S. Government Sponsored Agencies;

(3) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks (including the Trustee and its affiliates) which have a rating on their short-term certificates of deposit on the date of purchase of "P-1" by Moody's and "A-1" or "A-1+" by S&P and maturing not more than three hundred sixty (360) calendar days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank):

(4) Commercial paper which is rated at the time of purchase in the single highest classification, "P-1" by Moody's and "A-1+" by S&P, and which matures not more than two hundred seventy (270) calendar days after the date of purchase;

(5) Investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P, including funds for which the Trustee or an affiliate of the Trustee provides investment advice or other services;

(6) Pre-refunded municipal obligations defined as follows: Any bonds or other obligations of any state of the United States of America or of any District, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and

(A) which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category of Moody's and S&P or any successors thereto; or

(B) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in paragraph (2) of the definition of Federal Securities, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in such irrevocable instructions, as appropriate;

(7) Municipal obligations rated “Aaa/AAA” or general obligations of states with a rating of at least “A2/A” or higher by both Moody’s and S&P; and

(8) Shares in the California Asset Management Program.

The value of the above investments shall be determined as follows:

(i) For the purpose of determining the amount in any fund, all Permitted Investments credited to such fund shall be valued at fair market value. The Trustee shall determine the fair market value based on accepted industry standards and from accepted industry providers. Accepted industry providers shall include but are not limited to pricing services provided by Financial Times Interactive Data Corporation, Merrill Lynch, Citigroup Global Markets Inc., Bear Stearns, or Lehman Brothers;

(ii) As to certificates of deposit and bankers’ acceptances: the face amount thereof, plus accrued interest; and

(iii) As to any investment not specified above: the value thereof established by prior agreement among the District and the Trustee.

Maintenance and Operation Costs means (i) the reasonable and necessary costs of maintaining and operating the System, calculated in accordance with generally accepted accounting principles, including (without limitation) the reasonable expenses of management, repair and other expenses necessary to maintain and preserve the System in good repair and working order, and reasonable amounts for administration, overhead, insurance, taxes (if any) and other similar costs, and (ii) Purchased Water Costs, but excluding in all cases (a) depreciation and obsolescence charges or reserves therefor, amortization of intangibles, losses or gains on subsidiaries accounted for on an equity basis, or other bookkeeping entries of a similar nature, (b) all costs paid from the proceeds of taxes received by the District, and (c) all interest charges and charges for the payment of principal, or amortization, of bonded or other indebtedness of the District (other than Purchased Water Costs).

Master Resolution means Resolution No. 87-50 of the District, adopted on October 15, 1987.

Maximum Annual Debt Service means the greatest amount of Annual Debt Service becoming due and payable in any Fiscal Year including the Fiscal Year in which the calculation is made or any subsequent Fiscal Year; provided, however, that for the purposes of computing Maximum Annual Debt Service:

(a) Excluded Principal Payments (and interest on such Excluded Principal Payments from the date such Excluded Principal Payments are due and payable) shall be excluded from such calculation and Assumed Debt Service shall be included in such calculation;

- (b) debt service on Bonds or Parity Debt incurred to finance capital improvements shall be included in the calculation of Maximum Annual Debt Service for purposes of the Debt Service Coverage Ratio and Obligation Service Coverage Ratio calculation required by the Resolution, only in proportion to the amount of interest on such Bonds or Parity Debt which is payable in the then-current Fiscal Year from sources other than the proceeds of such Bonds and Parity Debt.

In addition, so long as the District is obligated to make payments pursuant to the Facility Lease entered into in connection with the issuance of the Contra Costa Water Authority's 2002 Series A Bonds, the District has covenanted to include principal payments on Parity Debt for purposes of the calculation of Maximum Annual Debt Service.

Net Revenues for any Fiscal Year means the sum of (i) the Revenues for such Fiscal Year plus (ii) the amounts, if any, withdrawn by the District from the Rate Stabilization Fund for treatment as Revenues for such Fiscal Year, less the sum of (iii) all Maintenance and Operation Costs for such Fiscal Year, and (iv) the amounts, if any, withdrawn by the District from Revenues during such Fiscal Year for deposit in the Rate Stabilization Fund.

Obligation means any contract or lease for the purchase of any facilities, properties, structures or works, the final payments under which are due more than one year following the effective date thereof, so long in each case as the payments thereunder constitute Maintenance and Operation Costs.

Obligation Service means, for any Fiscal Year, that portion of the sum of all contract payments required to be made on all Obligations at the times provided in such Obligations.

Obligation Service Coverage Ratio means, for any period of time, the ratio determined by dividing Adjusted Net Revenues by the sum of Obligation Service and Maximum Annual Debt Service.

Parity Debt means any indebtedness, installment sale obligation, lease obligation or other similar obligation of the District for borrowed money having an equal lien and charge upon the Net Revenues and therefore payable on parity with the Bonds (whether or not any Bonds are outstanding).

Purchased Water Costs means any contract for the purchase of water the final payments under which are due more than one year following the effective date thereof (including without limitation the District's obligations to the United States Bureau of Reclamation), which do not otherwise constitute Maintenance and Operation Costs and which (except in the case of the current contract with the United States Bureau of Reclamation) the District (on a date no later than the date of delivery of such contract) has elected to treat as Purchased Water Costs.

Revenues means all charges received for, and all other income and receipts derived by the District from, the operation of the System or arising from the System, together with any receipts derived from the sale of any property pertaining to the System or incidental to the operation of the System, together with all interest, profits and other income derived from the investment of moneys in any fund or account established under the Resolution (other than any fund established pursuant to a Rebate Certificate) or any other fund or account established by the District (including interest income from the investment of moneys in deferred compensation funds) but exclusive of any moneys derived from the levy or collection of taxes or assessments by the District.

Supplemental Resolution means any resolution duly adopted by the Board supplementing, modifying or amending the Master Resolution, but only if and to the extent that such Supplemental Resolution is specifically authorized under the Master Resolution.

System means the entire water system of the District and all of the facilities thereof, including all facilities for the storage, transmission, treatment or distribution of water (excluding the generation or transmission of electric power), together with all additions, betterments, extensions or improvements to said system or any part thereof.

THE RESOLUTION

The Resolution provides for the authentication and delivery of the Series R Bonds, establishes and declares the terms and conditions upon which the Series R Bonds shall be issued and secured, and secures the payment of principal thereof and premium (if any) and interest thereon. This summary does not purport to be complete or definitive and is qualified by reference to the full terms of the Resolution.

Authorization, Issuance and Form

Bonds may be issued from time to time without limitation as to amount, except as provided in the Resolution or as may be limited by the Law, and subject to the terms, conditions and limitations established in the Resolution and in any Supplemental Resolution.

Limitations on the Issuance of Obligations Payable from Net Revenues

See discussion under the caption “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES R BONDS – Limitations on the Issuance of Obligations Payable from Net Revenues” in the forepart of this Official Statement.

Pledge of Revenues

The Bonds are revenue bonds, are not secured by the taxing power of the District, and are payable as to both principal and interest, and any premium upon redemption thereof, exclusively from the Net Revenues, which are pledged to secure the payment of the principal of and interest and premium, if any, on the Bonds and any Parity Debt in accordance with their terms, the Revenues subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth therein. The pledge of Revenues constitutes a lien on and security interest in such assets and attaches, is perfected and is valid and binding from and after delivery by the Trustee of the Bonds, without any physical delivery thereof or further act.

The Revenues are pledged to the payment of Bonds and Parity Debt without priority or distinction of one over the other, subject to the condition that out of Revenues:

- First: There shall be applied all sums required for the Maintenance and Operation Costs.
- Second: There shall be applied all sums required for the payment of principal of (including any premium thereon) and interest on the Bonds and all Parity Debt, together with any sinking fund or reserve fund payments of Bonds and Parity Debt.

All remaining Revenues, after making the foregoing allocation, shall be available to the District for all lawful District purposes. The pledge of Revenues shall be irrevocable until all of the Bonds and all Parity Debt are no longer Outstanding.

For a discussion of allocation of Net Revenues under the Resolution see discussion under the caption “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES R BONDS – Allocation of Net Revenues under the Resolution” in the forepart of this Official Statement.

Bond Reserve Fund

A Bond Reserve Fund is established pursuant to the Resolution in an amount equal to the Bond Reserve Requirement. Amounts on deposit or credited to the Bond Reserve Fund will be applied solely to the payment of the Bonds in the event that amounts on deposit in the Interest Fund and the Principal Fund are insufficient therefor.

In lieu of making the Bond Reserve Requirement deposit or in replacement of moneys then on deposit in the Bond Reserve Fund (which shall be transferred by the Trustee to the District), the District may deliver to the Trustee an irrevocable letter of credit issued by a financial institution having unsecured debt obligations rated in one of the two highest rating categories of Moody's and S&P in an amount, together with moneys, Investment Securities or insurance policies (as described in the following paragraph) on deposit in the Bond Reserve Fund, equal to the Bond Reserve Requirement. Such letter of credit shall have a term of no less than three (3) years. At least one year prior to the stated expiration of such letter of credit, the District shall either (i) deliver a replacement letter of credit, (ii) deliver an extension of the letter of credit for at least an additional year, or (iii) deliver to the Trustee an insurance policy otherwise satisfying the requirements contained in the following paragraph. Upon delivery of such replacement letter of credit, extended letter of credit, or insurance policy, the Trustee shall deliver the then-effective letter of credit to or upon the order of the District. If the District shall fail to deposit a replacement letter of credit, extended letter of credit or insurance policy with the Trustee, the District shall immediately commence to make quarterly deposits with the Trustee so that an amount equal to the Bond Reserve Requirement is on deposit in the Bond Reserve Fund no later than the stated expiration date of the letter of credit. If a drawing is made on the letter of credit, the District shall make such payments as may be required by the terms of the letter of credit or any obligations related thereto (but not less than quarterly pro rata payments) so that the letter of credit shall, absent the delivery to the Trustee of an insurance policy satisfying the requirements contained in the following paragraph or the deposit in the Bond Reserve Fund of an amount sufficient to increase the balance in the Bond Reserve Fund to the Bond Reserve Requirement, be reinstated in the amount of such drawing within one year of the date of such drawing.

In lieu of making the Bond Reserve Requirement deposit or in replacement of moneys then on deposit in the Bond Reserve Fund (which shall be transferred by the Trustee to the District), the District may also deliver to the Trustee an insurance policy securing an amount, together with moneys, Investment Securities or a letter of credit on deposit in the Bond Reserve Fund, no less than the Bond Reserve Requirement issued by an insurance company whose unsecured debt obligations (or for which obligations secured by such insurance company's insurance policies) are rated in one of the two highest rating categories of Moody's and S&P. In the event that such insurance policy for any reason lapses or expires, the District shall immediately implement (i) or (iii) of the preceding paragraph, or make the required deposits to the Bond Reserve Fund.

All amounts in the Bond Reserve Fund (including all amounts which may be obtained from letters of credit and insurance policies on deposit in the Bond Reserve Fund) shall be used and withdrawn by the Trustee solely for the purpose of making up any deficiency in the Interest Fund or the Principal Fund, or (together with any other moneys available therefor) for the payment or redemption of all Bonds then Outstanding. The Trustee shall transfer any cash amounts in the Bond Reserve Fund in excess of the Bond Reserve Requirement to the District on or before the first day of each month.

Maintenance and Operation of the System

The District will maintain and preserve the System in good repair and working order at all times, and will operate the System in an efficient and economical manner.

Against Sale or Other Disposition of Property

The District will not sell, lease or otherwise dispose of the System or any part thereof essential to the proper operation of the System or to the maintenance of the Net Revenues. The District will not enter into any lease or agreement which impairs the operation of the System or any part thereof necessary to secure adequate Net Revenues for the payment of the principal of and interest on the Bonds, or which would otherwise impair the rights of the Bondholders with respect to the Net Revenues and the operation of the System; provided however, that neither this covenant, nor the covenant discussed under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES R BONDS – Limitations on Encumbrances" in the forepart of this Official Statement, shall prevent the District from entering into sale and leaseback agreements pursuant to which the District may acquire the use of property subject to the terms of such sale and leaseback agreements.

Payment of Taxes and Claims

The District shall pay and discharge, or cause to be paid and discharged, any and all taxes, assessments or other governmental charges lawfully imposed on the System or upon Revenues, when the same shall become due, as well as any and all lawful claims for labor, materials and supplies which, if unpaid, might by law become a lien or charge upon the System or the Revenues, or which might impair the security of the Bonds.

Rate and Charges; Debt Coverage

So long as any of the Bonds are Outstanding, the District will fix, charge and collect, or cause to be fixed, charged and collected, such rates, fees and charges for the use of and for the services furnished or to be furnished by the System which, together with all other receipts and revenues of the District, as will produce sufficient Net Revenues in each Fiscal Year so that (i) the Debt Service Coverage Ratio at the end of each such Fiscal Year is not less than 1.25:1.0, and (ii) the Obligation Service Coverage Ratio at the end of such Fiscal Year is not less than 1.0:1.0. The District may make adjustments from time to time in such rates, fees and charges and may make such classifications thereof as it deems necessary, but shall not reduce such rates, fees and charges below those then in effect unless the Net Revenues from such reduced rates will at all times be sufficient to meet the requirements of the Resolution. The District shall increase such rates, fees and charges whenever necessary to produce Net Revenues sufficient to meet the Debt Service Coverage Ratio and the Obligation Service Coverage Ratio requirements and the requirements of any Supplemental Resolution creating any series of Bonds. For the purposes of this covenant, the Debt Service Coverage Ratio and the Obligation Service Coverage Ratio shall be calculated with respect to Annual Debt Service for the Fiscal Year for which the calculation is being made (after first deducting any principal or interest paid during such Fiscal Year with moneys which are not Revenues) rather than with respect to Maximum Annual Debt Service.

In addition, so long as the District is obligated to make payments pursuant to the Facility Lease entered into in connection with the issuance of the Contra Costa Water Authority's 2002 Series A Bonds, the District has covenanted to include principal payments on Parity Debt for purposes of the calculation of Maximum Annual Debt Service.

Events of Default

The following events shall be Events of Default:

- (a) default in the due and punctual payment of the principal or Redemption Price of any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise, or default in the redemption from any Sinking Account of any Bonds in the amounts and at the times provided therefor;
- (b) default in the due and punctual payment of any installment of interest on any Bond when and as such interest installment shall become due and payable;
- (c) if the District shall fail to observe or perform any covenant, condition, agreement, or provision in the Resolution on its part to be observed or performed, other than as referred to in the preceding paragraphs (a) or (b), for a period of sixty (60) days after written notice, specifying such failure and requesting that it be remedied, has been given to the District by the Trustee; except that, if such failure can be remedied but not within such sixty (60) day period and if the District has taken all action reasonably possible to remedy such failure within such sixty (60) day period, such failure shall not become an Event of Default for so long as the District shall diligently proceed to remedy same in accordance with and subject to any directions or limitations of time established by the Trustee;
- (d) if any default shall exist under any agreement governing any Parity Debt and such default shall continue beyond the grace period, if any, provided for with respect to such default;
- (e) if the District files a petition in voluntary bankruptcy, for the composition of its affairs or for its corporate reorganization under any state or federal bankruptcy or insolvency law, or makes an assignment for the benefit of creditors, or admits in writing to its insolvency or inability to pay debts as they mature, or consents in writing to the appointment of a trustee or receiver for itself or for the whole or any substantial part of the System;
- (f) if a court of competent jurisdiction shall enter an order, judgment or decree declaring the District insolvent, or adjudging it bankrupt, or appointing a trustee or receiver of the District or of the whole or any substantial part of the System, or approving a petition filed against the District seeking reorganization of the District under any applicable law or statute of the United States of America or any state thereof, and such order, judgment or decree shall not be vacated or set aside or stayed within sixty (60) days from the date of the entry thereof; or
- (g) if, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the District or of the whole or any substantial part of the System, and such custody or control shall not be terminated within sixty (60) days from the date of assumption of such custody or control.

Acceleration of Maturities

If an Event of Default shall occur, then, and in each and every such case during the continuance of such Event of Default, the Trustee or the Holders of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding shall be entitled, upon notice in writing to the District, to declare the principal of all of the Bonds then Outstanding, and the interest accrued thereon, to be due and

payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in the Resolution or in the Bonds contained to the contrary notwithstanding.

Application of Revenues and Other Funds After Default

If an Event of Default shall occur and be continuing, all Revenues and any other funds then held or thereafter received by the Trustee under any of the provisions of the Resolution (except as otherwise provided in the Resolution) shall be applied by the Trustee as follows and in the following order:

- (1) To the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Holders of the Bonds and payment of reasonable fees and expenses of the Trustee (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under the Resolution;
- (2) To the payment of the principal or Redemption Price of and interest then due on the Bonds and Parity Debt (upon presentation of the Bonds and Parity Debt to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of the Resolution, as follows:
 - (i) Unless the principal of all of the Bonds and Parity Debt shall have become or have been declared due and payable,

First: To the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the persons entitled thereto of the unpaid principal or Redemption Price of any Bonds and Parity Debt which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, with interest on the overdue principal at the rate borne by the respective Bonds, and, if the amount available shall not be sufficient to pay in full all the Bonds and Parity Debt due on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date to the persons entitled thereto, without any discrimination or preference.

- (ii) If the principal of all of the Bonds and Parity Debt shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds and Parity Debt, with interest on the overdue principal at the rate borne by the respective Bonds and Parity Debt, and, if the amount available shall not be sufficient to pay in full the whole amount so due and unpaid, then to the payment thereof ratably, 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, or of any Bond or Parity Debt over any other Bond or Parity Debt, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference.

Trustee to Represent Bondholders

The Trustee is irrevocably appointed (and the successive respective Holders of the Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney-in-fact of the Holders of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Holders under the provisions of the Bonds, the Resolution, the Law and applicable provisions of any other law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Bondholders, the Trustee in its discretion may, and upon the written request of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of such Holders by such appropriate action, suit, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained in the Resolution, or in aid of the execution of any power granted in the Resolution, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Holders under the Resolution, the Law or any other law; and upon instituting such proceeding, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver of the Revenues and other assets pledged under the Resolution, pending such proceedings. All rights of action under the Resolution or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of all the Holders of such Bonds, subject to the provisions of the Resolution.

Bondholders' Direction of Proceedings

Anything in the Resolution to the contrary notwithstanding, the Holders of a majority in aggregate principal amount of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the method of conducting all remedial proceedings taken by the Trustee under the Resolution, provided that such direction shall not be otherwise than in accordance with law and the provisions of the Resolution, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders or holders of Parity Debt not parties to such direction.

Limitation on Bondholders' Right to Sue

No Holder of any Bond shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Resolution, the Law or any other applicable law with respect to such Bond, unless (1) such Holder shall have given to the Trustee written notice of the occurrence of an Event of Default; (2) the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such suit, action or proceeding in its own name; (3) such Holder or said Holders shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (4) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are declared, in every case, to be conditions precedent to the exercise by any Holder of Bonds of any remedy under the Resolution or under law; it being understood and intended that no one or more Holders of Bonds shall

have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Resolution or the rights of any other Holders of Bonds, or to enforce any right under the Resolution, the Law or other applicable law with respect to the Bonds, except in the manner provided in the Resolution, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner provided in the Resolution and for the benefit and protection of all Holders of the Outstanding Bonds, subject to the provisions of the Resolution.

Rights of Insurers

Notwithstanding the other provisions of the article of the Resolution relating to Events of Default and Remedies of Bond Holders, if one or more maturities of Bonds are insured by a commercial insurance company, a commercial bank or other insurer or surety, the Supplemental Resolution pursuant to which such Bonds are issued may provide that such insurer or surety, upon the occurrence and continuance of an Event of Default, shall be entitled to control and direct the enforcement of all rights and remedies granted to the Holders of such Bonds (or the Trustee for the benefit of the Holders of such Bonds) under the Master Resolution as if such insurer or surety were the Holder of all of such Bonds then Outstanding, including, without limitation, (i) the right to accelerate the principal of such Bonds and (ii) the right to annul any declaration of acceleration of such Bonds, and to be entitled to approve all waivers of Events of Default relating to such Bonds.

Amendments Permitted

The Resolution and the rights and obligations of the District, the Holders of the Bonds and the Trustee may be modified or amended from time to time and at any time by a Supplemental Resolution, which the District may adopt with the written consent of the Holders of a majority in aggregate principal amount of the Bonds then Outstanding shall have been filed with the Trustee; provided that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any particular maturity remain Outstanding, the consent of the Holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Bonds Outstanding under this Section. No such modification or amendment shall (1) extend the fixed maturity of any Bond, or reduce the amount of principal thereof, or extend the time of payment or reduce the amount of any Mandatory Sinking Account Payment provided in the Resolution for the payment of any Bond, or reduce the rate of interest thereon, or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof, without the consent of the Holder of each Bond so affected, or (2) reduce the aforesaid percentage of Bonds the consent of the Holders of which is required to effect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Resolution prior to or on a parity with the lien created by the Resolution, or deprive the Holders of the Bonds of the lien created by the Resolution on such Revenues and other assets (except as expressly provided in the Resolution), without the consent of the Holders of all of the Bonds then Outstanding. It shall not be necessary for the consent of the Bondholders to approve the particular form of any Supplemental Resolution, but it shall be sufficient if such consent shall approve the substance thereof. Promptly after the adoption by the District of any Supplemental Resolution pursuant to this paragraph, the District shall notify the Trustee of such adoption, whereupon the Trustee shall mail a notice, setting forth in general terms the substance of such Supplemental Resolution to the Holders of the Bonds at the addresses shown on the registration books of the Trustee. Any failure to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Resolution.

The Resolution and the rights and obligations of the District, of the Trustee and of the Holders of the Bonds may also be modified or amended from time to time and at any time by any Supplemental

Resolution, which the District may adopt without the consent of any Holders, but only to the extent permitted by law and only for any one or more of the following purposes:

- (1) to add to the covenants and agreements of the District contained in the Resolution, other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power in the Resolution reserved to or conferred upon the District, provided that no such covenant, agreement, pledge, assignment or surrender shall materially and adversely affect the interests of the Holders of the Bonds;
- (2) to make such provisions for the purpose of curing any ambiguity, inconsistency, or omission, or of curing or correcting any defective provisions, contained in the Resolution, or in regard to matters or questions arising under the Resolution, as the District may deem necessary or desirable and not inconsistent with the Resolution, and which shall not materially and adversely affect the interests of the Holders of the Bonds;
- (3) to notify, amend or supplement the Resolution in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute; and which shall not materially and adversely affect the interests of the Holders of the Bonds;
- (4) to make provisions for the issuance of variable rate or Parity Debt; provided that no such provisions shall materially and adversely affect the interests of the Holders of the Bonds;
- (5) to provide for the issuance of Bonds in book-entry form, provided that no such provision shall materially and adversely affect the interests of the Holders of the Bonds; and
- (6) if the District has agreed in a Supplemental Resolution to maintain the exclusion of interest on a series of Bonds from gross income for purposes of federal income taxation, to make such provisions as are necessary or appropriate to ensure such exclusion.

Discharge of the Resolution

The District may pay Bonds of any Series in any of the following ways; provided that the District also pays or causes to be paid any other sums payable pursuant to the Resolution by the District:

- (a) by paying or causing to be paid the principal or Redemption Price of and interest on all Bonds Outstanding of the Series, as and when the same become due and payable;
- (b) by depositing with the Trustee, in trust, at or before maturity, money or securities in the necessary amount (as provided in the Resolution) to pay or redeem all Bonds Outstanding of the Series; or
- (c) by delivering to the Trustee, for cancellation by it, all Bonds then Outstanding of the Series.

If the District shall pay all Series for which any Bonds are Outstanding and also pay or cause to be paid all other sums payable under the Resolution by the District, then and in that case, at the election of the District (evidenced by a Certificate of the District, filed with the Trustee, signifying the intention of the District to discharge all such indebtedness and the Resolution), and notwithstanding that any Bonds shall not have been surrendered for payment, the Resolution and the pledge of Revenues and other assets

made under the Resolution and all covenants, agreements and other obligations of the District under the Resolution shall cease, terminate, become void and be completely discharged and satisfied. In such event, upon Request of the District, the Trustee shall cause an accounting for such period or periods as may be requested by the District to be prepared and filed with the District and shall execute and deliver to the District all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee shall pay over, transfer, assign or deliver to the District all moneys or securities or other property held by it pursuant to the Resolution which, as evidenced by a verification report from a firm of certified public accountants, or other firm acceptable to the Trustee, are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption.

APPENDIX C

PROPOSED FORM OF BOND COUNSEL OPINION

_____, 2013

Contra Costa Water District
Concord, California

\$91,670,000 Contra Costa Water District
Water Revenue Refunding Bonds, Series R
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the Contra Costa Water District (the “District”) in connection with issuance of \$91,670,000 aggregate principal amount of Contra Costa Water District Water Revenue Refunding Bonds, Series R (the “Bonds”), issued pursuant to the provisions of Resolution No. 87-50 of the District, adopted on October 15, 1987, as amended and supplemented, including as amended and supplemented by Resolution No. 13-12 of the District adopted on June 19, 2013 (together, the “Resolution”). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Resolution.

In such connection, we have reviewed the Resolution, the Tax Certificate, opinions of counsel to the District and U.S. Bank National Association, as trustee (the “Trustee”), certificates of the District, the Trustee, and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter.

We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the District. We have assumed, without undertaking to

verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Resolution and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Resolution, and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles and to the exercise of judicial discretion in appropriate cases. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), arbitration, judicial reference, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the assets described in or as subject to the lien of the Resolution or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such assets. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

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

1. The Bonds constitute the valid and binding limited obligations of the District.
2. The Resolution has been duly adopted by, and constitutes the valid and binding obligation of, the District. The Resolution creates a valid pledge, to secure the payment of the principal of and interest on the Bonds, of the Revenues and any other amounts held by the Trustee in the Interest Fund, the Principal Fund, the Bond Reserve Fund and the Redemption Fund established pursuant to the Resolution, subject to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution.
3. The Bonds are not a lien or charge upon the funds or property of the District except to the extent of the aforementioned pledge. Neither the faith and credit nor the taxing power of the District, the State of California or of any political subdivision thereof is pledged to the payment of the principal of or interest on the Bonds. The Bonds are not a debt of the State of California, and said State is not liable for the payment thereof.
4. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1983 and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for

purposes of the federal individual or corporate alternative minimum taxes, although we observe that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

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APPENDIX D

SUMMARY OF DEBT SERVICE OBLIGATIONS

The following table summarizes the annual debt service requirements for the District's outstanding Water Revenue Bonds and its obligations with respect to other Parity Debt. It does not include principal and interest requirements of assessment bonds which are paid by benefited property owners, any payments under its water purchase contract with the Bureau, and certain other indebtedness of the District incurred for the purchase of equipment. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES R BONDS - Outstanding Water Revenue Bonds and Other Parity Debt" and "- Limitations on the Issuance of Obligations Payable from Net Revenues" in the forepart of this Official Statement.

OUTSTANDING PRINCIPAL AND INTEREST REQUIREMENTS

Fiscal Year	Series N, O, P, Q and R Water Revenue Bond Debt Service ⁽¹⁾	Authority 2012 Series A Bond Debt Service	SRF Loans	Total Parity Debt Service ⁽²⁾
2014	\$30,781,498.61	\$446,400.00	\$734,758.12	\$31,962,656.73
2015	32,291,050.00	2,336,900.00		34,627,950.00
2016	34,527,862.50	3,770,600.00		38,298,462.50
2017	40,207,612.50	3,771,825.00		43,979,437.50
2018	40,094,375.00	3,777,675.00		43,872,050.00
2019	40,496,000.00	3,777,925.00		44,273,925.00
2020	37,667,500.00	3,786,050.00		41,453,550.00
2021	37,659,125.00	3,780,875.00		41,440,000.00
2022	35,045,625.00			35,045,625.00
2023	33,589,125.00			33,589,125.00
2024	31,507,875.00			31,507,875.00
2025	30,984,250.00			30,984,250.00
2026	31,145,162.50			31,145,162.50
2027	30,791,325.00			30,791,325.00
2028	11,004,250.00			11,004,250.00
2029	11,001,475.00			11,001,475.00
2030	11,011,450.00			11,011,450.00
2033	7,925,675.00			7,925,675.00
2034	7,927,750.00			7,927,750.00
2035	5,321,825.00			5,321,825.00
2036	1,531,625.00			1,531,625.00
2037	1,535,125.00			1,535,125.00
2038	1,536,125.00			1,536,125.00
2039	1,534,625.00			1,534,625.00
2040	1,535,500.00			1,535,500.00
2041	1,533,625.00			1,533,625.00
2042	1,533,875.00			1,533,875.00
2043	1,536,000.00			1,536,000.00

Fiscal Year	Series N, O, P, Q and R Water Revenue Bond Debt Service ⁽¹⁾	Authority 2012 Series A Bond Debt Service	SRF Loans	Total Parity Debt Service ⁽²⁾
2044	1,534,875.00			1,534,875.00
Total	\$557,859,936.11	\$22,448,250.00	\$734,758.12	\$584,042,944.23

- (1) Reflects the issuance of the Series R Bonds, and defeasance and redemption of Series M Bonds and payment of the SRF Loans from a portion of the proceeds of the Series R Bonds and other available funds as described under "PLAN OF REFUNDING."
- (2) Excludes Assessment District Bonds, Bureau and Economic Development Administration contracts.

Note: Numbers may not foot due to rounding.

APPENDIX E

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (this “Disclosure Agreement”) is executed and delivered by Contra Costa Water District (the “District”) and U.S. Bank National Association, as trustee and dissemination agent (the “Trustee” and the “Dissemination Agent”) in connection with the issuance of \$91,670,000 Contra Costa Water District Water Revenue Refunding Bonds, Series R (the “Series R Bonds”). The Series R Bonds are being issued pursuant to Resolution No. 87-50 of the District, adopted on October 15, 1987, as amended and supplemented (the “Resolution”), including as supplemented by Resolution No. 13-12 of the District, adopted on June 19, 2013 (the “Nineteenth Supplemental Resolution”) relating to the Series R Bonds.

Section 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the District and the Dissemination Agent for the benefit of the Holders and Beneficial Owners of the Series R Bonds and in order to assist the Participating Underwriter of the Series R Bonds in complying with the Rule (defined below).

Section 2. Definitions. In addition to the definitions set forth in the Resolution which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“**Annual Report**” shall mean any Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“**Beneficial Owner**” shall mean any person who has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

“**Disclosure Representative**” shall mean the Assistant General Manager – Administration of the District or his or her designee, or such other person as the District shall designate in writing to the Dissemination Agent and the Trustee from time to time.

“**Dissemination Agent**” shall mean U.S. Bank National Association, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the District and which has filed with the Trustee a written acceptance of such designation.

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

“**National Repository**” shall mean the Municipal Securities Rulemaking Board (the “MSRB”) or any other entity designated or authorized by the Securities Exchange Commission to receive reports or notices pursuant to the Rule. Until otherwise designated by the MSRB or the SEC, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

“**Participating Underwriter**” shall mean the original underwriter or underwriters of the Series R Bonds required to comply with the Rule in connection with offering of the Series R Bonds.

“**Rule**” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“**State**” shall mean the State of California.

Section 3. Provision of Annual Reports. The District shall, or upon written direction shall cause the Dissemination Agent to, not later than nine months after the end of the District’s fiscal year (presently June 30), commencing with the report for the 2012-2013 Fiscal Year, provide to the National Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. In each case, the Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the District’s fiscal year changes, it shall give notice of such change in a filing with the National Repository.

Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to the National Repository, the District shall provide the Annual Report to the Dissemination Agent and the Trustee (if the Trustee is not the Dissemination Agent). If by such date the Trustee has not received a copy of the Annual Report, the Trustee shall contact the District and the Dissemination Agent to inquire if the District is in compliance with the first sentence of this subsection (b). The District shall provide a written certification with each Annual Report furnished to the Dissemination Agent and the Trustee to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent and the Trustee may conclusively rely upon such certification of the District and shall have no duty or obligation to review such Annual Report.

If the Dissemination Agent is unable to confirm that an Annual Report has been provided to the National Repository by the date required in subsection (a), the Dissemination Agent shall send a notice to the National Repository in substantially the form attached as Exhibit A.

The Dissemination Agent shall:

- (a) determine each year prior to the date for providing the Annual Report the name and address of the National Repository; and
- (b) file a report with the District and (if the Dissemination Agent is not the Trustee) the Trustee certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided, to the National Repository.

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

- (a) The audited financial statements of the District for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated from time to time by the Governmental Accounting Standards Board. If the District’s audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official

Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

- (b) Financial, numerical or tabular information of the types contained in the Official Statement relating to the Series R Bonds, dated June 27, 2013 under the following captions or tables:
 - (i) Historical and Projected Rate Increases;
 - (ii) Five-Year History of Water Sales Revenues;
 - (iii) Largest Untreated Water Customers, Water Consumption and Water Sales Revenues
 - (iv) TREATED WATER - Active Accounts, Water Consumption by Type of Customer and Water Sales Revenues;
 - (v) Rates and Charges - Uncollectible Revenues -(information about accounts receivable will routinely be found in the annual audit);
 - (vi) District Gross Water Consumption;
 - (vii) Uncollectible Revenues;
 - (viii) Treated Water Rates and Charges;
 - (ix) Untreated Water Rates and Charges;
 - (x) Charges for New Service;
 - (xi) Schedule of Debt Service Coverage;
 - (xii) Summary of Revenues, Expenses & Changes in Net Assets (which will routinely be found in the annual audit);
 - (xiii) Retirement Program (information about which will routinely be found in the annual audit); and
 - (xiv) District's Annual Reclamation Water Allocations and Actual Deliveries.

Any or all of the items listed above may be set forth in one or a set of documents or may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which have been made available to the public on the MSRB's website. The District shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

(a) The District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Series R Bonds in a timely manner not later than ten business days after the occurrence of the event:

- 1. Principal and interest payment delinquencies;

2. **Unscheduled draws on debt service reserves reflecting financial difficulties;**
3. **Unscheduled draws on credit enhancements reflecting financial difficulties;**
4. **Substitution of credit or liquidity providers, or their failure to perform;**
5. **Adverse tax opinions or issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);**
6. **Tender offers;**
7. **Defeasances;**
8. **Rating changes; or**
9. **Bankruptcy, insolvency, receivership or similar event of the obligated person.**

Note: for the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) The District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Series R Bonds, if material, in a timely manner not later than ten business days after the occurrence of the event:

1. **Unless described in paragraph 5(a)(5), other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Series R Bonds or other material events affecting the tax status of the Series R Bonds;**
2. **Modifications to rights of bond holders;**
3. **Optional, unscheduled or contingent bond calls;**
4. **Release, substitution, or sale of property securing repayment of the Series R Bonds;**
5. **Non-payment related defaults;**
6. **The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a**

definitive agreement relating to any such actions, other than pursuant to its terms; or

7. Appointment of a successor or additional trustee or the change of name of a trustee.

(c) Whenever the District obtains knowledge of the occurrence of a Listed Event described in Section 5(b), the District shall determine if such event would be material under applicable federal securities laws.

(d) If the District learns of the occurrence of a Listed Event described in Section 5(a), or determines that knowledge of a Listed Event described in Section 5(b) would be material under applicable federal securities laws, the District shall within ten business days of occurrence file a notice of such occurrence with the MSRB. Notwithstanding the foregoing, notice of the Listed Event described in subsections (a)(7) or (b)(3) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Series R Bonds pursuant to the Resolution.

Section 6. Format for Filings with MSRB. Any report or filing with the MSRB pursuant to this Disclosure Agreement must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB.

Section 7. Termination of Reporting Obligation. The District's, Dissemination Agent's and Trustee's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Series R Bonds. If such termination occurs prior to the final maturity of the Series R Bonds, the District shall give notice of such termination in a filing with the MSRB.

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 Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to this Disclosure Agreement. If at any time there is not any other designated Dissemination Agent, the Trustee shall be the Dissemination Agent. The initial Dissemination Agent shall be U.S. Bank National Association. The Dissemination Agent may resign by providing thirty (30) days' written notice to the District and the Trustee. The Dissemination Agent shall not be responsible for the content of any report or notice prepared by the District. The Dissemination Agent shall have no duty to prepare any information report nor shall the Dissemination Agent be responsible for filing any report not provided to it by the District in a timely manner.

Section 9. Amendment Waiver. Notwithstanding any other provision of this Disclosure Agreement, the District, the Dissemination Agent and the Trustee may amend this Disclosure Agreement (and the Trustee and the Dissemination Agent shall agree to any amendment so requested by the District, provided that neither the Trustee nor the Dissemination Agent shall be obligated to enter into any such amendment that modifies or increases its duties or obligations hereunder) and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

- (a) If the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a) or (b), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of

an obligated person with respect to the Series R Bonds, or the type of business conducted;

- (b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Series R Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and
- (c) The amendment or waiver either (i) is approved by the Holders of the Series R Bonds in the same manner as provided in the Resolution for amendments to the Resolution with the consent of the 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 Series R Bonds.

In the event of any amendment or waiver of a provision of the Disclosure Agreement, the District shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the District. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in a filing with the National Repository, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 10. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement 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 Agreement. 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 Agreement, the District shall have no obligation under this Disclosure Agreement 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 or the Trustee to comply with any provisions of the Disclosure Agreement, the Trustee at the written request of any Participating Underwriter or the Holders of at least 25% aggregate principal amount of Outstanding Bonds, shall (but only to the extent funds in an amount satisfactory to the Trustee have been provided to it or it has been otherwise indemnified to its satisfaction from any cost, liability, expense or additional charges and fees of the Trustee whatsoever, including, without limitation, fees and expenses of its attorneys), or any Holder or Beneficial Owner of the Series R Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District or the Trustee, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Resolution, and the sole remedy under this Disclosure Agreement in the event of any failure of the District or the Trustee to comply with this Disclosure Agreement shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Trustee and Dissemination Agent. The Dissemination Agent and the Trustee shall have only such duties as are specifically set forth in this Disclosure Agreement, and the District agrees to indemnify and save the Dissemination Agent and the

Trustee, their 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 their powers and duties hereunder, including the costs and expenses (including attorney's fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the District for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent and the Trustee shall have no duty or obligation to review any information provided to them hereunder. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Series R Bonds.

Section 13. Notices. Any notices or communications to or among any of the parties to this Disclosure Agreement may be given as follows:

To the District:	Contra Costa Water District 1331 Concord Avenue Concord, California 94524
To the Trustee and Dissemination Agent:	U.S. Bank National Association One California Street, 10 th Floor San Francisco, CA 94111 Attention: Corporate Trust Services

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

Section 14. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the District, the Trustee, the Dissemination Agent, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Series R Bonds, and shall create no rights in any other person or entity.

Section 15. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Dated: _____, 2013.

CONTRA COSTA WATER DISTRICT

By _____
Assistant General Manager – Administration

U.S. BANK NATIONAL ASSOCIATION,
as Trustee and Dissemination Agent

By _____
Authorized Officer

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Contra Costa Water District
Name of Bond Issue: Contra Costa Water District Water Revenue Refunding Bonds, Series R
Date of Issuance: _____, 2013
Name of Obligated Party: Contra Costa Water District

NOTICE IS HEREBY GIVEN that Contra Costa Water District has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Agreement, dated as of _____, 20___. The District anticipates that the Annual Report will be filed by _____.

Dated: _____

U.S. BANK NATIONAL ASSOCIATION,
as Dissemination Agent

cc: Contra Costa Water District

APPENDIX F

DTC DESCRIPTION

The information in this APPENDIX F concerning The Depository Trust Company, New York, New York (“DTC”) and DTC’s book-entry system has been obtained from DTC and the District takes no responsibility for the accuracy thereof. The District cannot and does not give any assurances that DTC, Direct Participants or Indirect Participants will distribute to the Beneficial Owners (all as defined below): (a) payments of principal of, premium if any, and interest on (“Debt Service”) Series R Bonds; (b) confirmations of ownership interest in Series R Bonds; or (c) notices sent to DTC or Cede & Co., its nominee, as the registered owner of Series R Bonds, or that they will so do on a timely basis or that DTC, Direct Participants or Indirect Participants will act in the manner described in this Official Statement. 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.

Neither the District nor the Trustee will have any responsibility or obligations to DTC, the Direct Participants, the Indirect Participants of DTC or the Beneficial Owners with respect to: (1) the accuracy of any records maintained by DTC or any Direct Participants or Indirect Participants of DTC; (2) the payment by DTC or any Direct Participants or Indirect Participants of DTC of any amount due to any Beneficial Owner in respect of the Debt Service on Series R Bonds; (3) the delivery by DTC or any Direct Participants or Indirect Participants of DTC of any notice to any Beneficial Owner that is required or permitted to be given to owners under the terms of the Resolution; or (4) any consent given or other action taken by DTC as registered owner of Series R Bonds.

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Series R Bonds. The Series R Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series R Bond certificate will be issued for each maturity the Series R Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard &

Poor's rating AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of the Series R Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series R Bonds on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series R Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series R Bonds, except in the event that use of the book-entry system for the Series R Bonds is discontinued.

To facilitate subsequent transfers, all Series R Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Series R Bonds 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 Series R Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series R Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Series R Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

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

Redemption proceeds, distributions, and dividend payments on the Series R Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the District or the Trustee on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee or the District subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the

responsibility of the District or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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

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