

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 C Notes 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 C Notes 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 amount, accrual or receipt of interest on, the Series C Notes. See "TAX MATTERS" herein.



\$23,790,000
CONTRA COSTA WATER DISTRICT
(CONTRA COSTA COUNTY, CALIFORNIA)
WATER REVENUE REFUNDING NOTES, SERIES C

Dated: Date of Delivery

Due: October 1, 2019

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 Notes, Series C (the "Series C Notes") are being issued by the Contra Costa Water District (the "District") to provide funds, together with other available moneys, (1) to refund certain of the District's outstanding Water Revenue Notes, Series A and Series B, and (2) to pay the costs of issuance of the Series C Notes, as more fully described herein. See "PLAN OF REFUNDING" herein.

Interest on the Series C Notes is payable on April 1, 2015, and semi-annually thereafter on April 1 and October 1 of each year. Principal is payable on October 1, 2019. The Series C Notes bear interest at the rate of 3.00% reflecting a yield of 1.15% and will bear the CUSIP 212218SN2[†].

The Series C Notes 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 C Notes. Individual purchases of interests in the Series C Notes 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 C Notes. Principal of and interest on the Series C Notes 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 C Notes, as described herein. See APPENDIX G – "DTC DESCRIPTION."

The Series C Notes are subject to optional redemption prior to maturity as described herein.

The Series C Notes are special obligations of the District, payable solely from Available Mezzanine Revenues of the System (as those terms are defined in the Note Trust Agreement, dated as of June 1, 2010 (the "Trust Agreement"), between the District and the Trustee) and are secured by a pledge of Revenues on a parity with the District's outstanding Notes (as defined herein) and other Parity Mezzanine Debt (as defined herein); 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) and **second** payment of debt service and certain other payments on the Senior Debt (as defined herein). **Payments on the Series C Notes are subordinate to payments on the Senior Debt and are payable on parity with the Parity Mezzanine Debt, including the District's outstanding Notes.** See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES C NOTES – Pledge of Revenues" for further details about the payments relating to Senior Debt and Parity Mezzanine Debt and see also " – Outstanding Debt of the District – Senior Debt" and " – Outstanding Debt of the District – Notes and Parity Mezzanine Debt" for a discussion of the outstanding Senior Debt and Parity Mezzanine Debt of the District.

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

The Series C Notes are offered when, as and if issued and received by the Underwriter, subject to the approval of validity of the Series C Notes 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, San Francisco, California, will pass on certain legal matters for the Underwriter. It is anticipated that the Series C Notes, in book-entry form, will be available for delivery to the Trustee on behalf of DTC by Fast Automated Securities Transfer on or about September 25, 2014.

BofA Merrill Lynch

Dated: September 11, 2014

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This Official Statement is intended only to furnish information in connection with the purchase of the Series C Notes. The Official Statement DOES NOT constitute a recommendation, expressed or implied, to purchase or not to purchase the Series C Notes or any other obligations, bonds or notes 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 Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has 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 Underwriter does not guarantee the accuracy or completeness of such information.

In connection with this offering, the Underwriter may over allot or effect transactions which stabilize or maintain the market price of the Series C Notes 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 C Notes. 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 C Notes 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 C NOTES, NOR SHALL THERE BE ANY SALE OF ANY OF THE SERIES C NOTES, 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 C Notes 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 Trust Agreement, the Continuing Disclosure Agreement and statutes and other documents do not purport to be comprehensive or definitive and are qualified in their entireties by reference to each such document and statute. The Series C Notes have not been registered under the Securities Act of 1933, as amended, and the Trust Agreement has not been qualified under the Trust Indenture Act of 1939, as amended, in reliance upon exemptions from the registration requirements contained in such Acts.

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," "WATER SYSTEM FINANCES – 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.

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\$23,790,000
CONTRA COSTA WATER DISTRICT
(CONTRA COSTA COUNTY, CALIFORNIA)
WATER REVENUE REFUNDING NOTES, SERIES C

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 \$23,790,000 aggregate principal amount of its Water Revenue Refunding Notes, Series C (the "Series C Notes"). 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 Trust Agreement (defined below).

The Series C Notes are special obligations of the District, payable solely from Available Mezzanine Revenues of the System, as defined in the Note Trust Agreement, dated as of June 1, 2010, between the District and U.S. Bank National Association, as trustee (the "Trustee") as amended and supplemented (the "Trust Agreement"), including as supplemented by a Third Supplemental Note Trust Agreement, dated as of September 1, 2014, between the District and the Trustee (the "Third Supplemental Trust Agreement"). The Series C Notes are secured by a pledge of Revenues on a parity with the District's outstanding Notes (as defined herein) and other Parity Mezzanine Debt (as defined herein); 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) and **second** payment of debt service and certain other payments on the Senior Debt (as defined herein). **Payments on the Series C Notes are subordinate to payments on the Senior Debt and are payable on parity with the Parity Mezzanine Debt, including the District's outstanding Notes.** See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES C NOTES – Pledge of Revenues" for further details about the payments relating to Senior Debt and Parity Mezzanine Debt and see also "– Outstanding Debt of the District – Senior Debt" and "– Outstanding Debt of the District – Notes and Parity Mezzanine Debt" for a discussion of the outstanding Senior Debt and Parity Mezzanine Debt of the District. Neither the faith and credit nor the taxing power of the District is pledged to the payment of the Series C Notes or the interest thereon. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES C NOTES – Pledge of Revenues" herein.

PLAN OF REFUNDING

The Series C Notes

The Series C Notes are being issued by the District to provide funds, together with other available moneys, (1) to refund the portion of the District's outstanding Water Revenue Notes, Series A and Series B maturing on October 1, 2014 (collectively, the "Prior Notes"), and (2) to pay the costs of issuance of the Series C Notes.

The Prior Notes will be paid at maturity from proceeds of the Series C Notes deposited with the Trustee on the date of issuance of the Series C Notes. The following table sets forth the par amounts of the Prior Notes to be refunded.

Base CUSIP Number: 212218

<u>Series</u>	<u>Maturity Date (October 1)</u>	<u>Coupon</u>	<u>Principal to be Refunded</u>	<u>CUSIP Suffix[†]</u>
A	2014	2.00%	\$2,455,000	PH8
A	2014	3.00	3,200,000	PP0
B	2014	2.00	3,950,000	QG9
B	2014	4.00	15,565,000	QN4
B	2014	5.00	485,000	QP9

The District expects to continuously refund maturing Notes until Fiscal Year 2021 (“FY2021”), at which time the District expects to issue Senior Debt to refinance the then-outstanding refunding Notes. See the table entitled “Total District Debt Service – Including Debt Financing for MRIP/LVE” under the caption “WATER SYSTEM FINANCES – Ten-Year Capital Improvement Program and Financing Plan” in this Official Statement for a description of the District’s current debt incurrence projections.

Pursuant to the Trust Agreement, in order to issue additional Notes, including refunding Notes, the District must satisfy the provisions of the Trust Agreement, including a Mezzanine Debt Service Coverage Ratio at least equal to 1.25:1.0. The District plans to designate the principal payments on the Series C Notes as Excluded Principal Payments under the Trust Agreement because the District intends to pay the Series C Notes at maturity with moneys which are not Revenues. Accordingly, Assumed Debt Service rather than the actual principal payments on the Series C Notes will be included when calculating Maximum Annual Debt Service for purposes of the Mezzanine Debt Service Coverage Ratio. Assumed Debt Service is calculated by amortizing Excluded Principal Payments over a period specified by the District of not more than 30 years on a substantially level debt basis, calculated based on an interest rate equal to the rate at which the District could borrow for such period, as certified by a financial advisor or investment banker. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES C NOTES – Limitations on the Issuance of Obligations Payable from Available Mezzanine Revenues.”

There is no assurance that the District will be able to issue additional Notes from time to time to refinance the Series C Notes or other Notes or to issue Senior Debt in fiscal year 2021 to refinance the Series C Notes or other Notes. If the District is unable to issue additional Notes or Senior Debt to refinance the Series C Notes or additional Notes, it is required to pay the Series C Notes or additional Notes from Available Mezzanine Revenues. If Senior Debt is issued to refinance the Series C Notes as they mature, such Senior Debt would be senior to any remaining outstanding Series C Notes.

[†] 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 C Notes	\$23,790,000.00
	Plus Original Issue Premium	2,035,472.40
		<hr/>
	TOTAL SOURCES	\$25,825,472.40
Uses:	Refunding of Prior Notes	\$25,655,000.00
	Underwriter's Discount	35,400.84
	Costs of Issuance ⁽¹⁾	135,071.56
		<hr/>
	TOTAL USES	\$25,825,472.40

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

THE SERIES C NOTES

General Description

The Series C Notes 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 C Notes. Individual purchases of ownership interests in the Series C Notes will be made in book-entry form only in denominations of \$5,000 or any integral multiple thereof. See APPENDIX G – "DTC DESCRIPTION."

The Series C Notes 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 cover page of this Official Statement. Interest on the Series C Notes is payable on April 1, 2015, 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 C Notes 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 C Notes.

The Series C Notes are authorized for issuance pursuant to the Trust Agreement and in accordance with the County Water District Law (constituting Division 12 of the California Water Code) and Title 5, Division 2, Part 1, Chapter 3, Article 11 of the California Government Code (collectively, the "Law").

Redemption

Optional Redemption. The Series C Notes are subject to optional redemption prior to maturity, at the written request of the District, in whole or in part on any date on or after July 1, 2019, at a Redemption Price equal to the principal amount of such Notes called for redemption, plus accrued interest to the date fixed for redemption, without premium.

Notice of Redemption. Notice of optional redemption will be mailed by first-class mail by the Trustee, not less than 20 days and not more than 60 days prior to the date fixed for redemption, to the respective Holders of any Series C Notes designated for redemption at their addresses appearing on the Series C Note registration books of the Trustee. Each notice of redemption will state the date of such notice, the date of issuance of the Notes, the date fixed for redemption, the Redemption Price, the place or places of redemption (including the name and appropriate address or addresses of the Trustee), the maturity (including CUSIP numbers, if any), and, in the case of Series C Notes to be redeemed in part

only, the respective portions of the principal amount thereof to be redeemed. Each such notice will also state that on said date there will become due and payable, on each of the Series C Notes designated for redemption, the Redemption Price thereof (or of said specified portion of the principal amount thereof in the case of a Series C Note to be redeemed in part only), together with interest accrued thereon to the date fixed for redemption, and that from and after the date fixed for redemption interest thereon will cease to accrue, and that each Series C Notes being redeemed will be required to then be surrendered. Each notice may also state that redemption is conditioned upon receipt by the Trustee on the date specified for redemption of sufficient funds to pay the Redemption Price of the Series C Notes so redeemed, may be rescinded by written notice given by the District to the Trustee, and, as applicable, may be otherwise subject to one or more conditions as set forth in such notice. Such redemption notices may state that no representation is made as to the accuracy or correctness of the CUSIP numbers printed therein or on the Series C Notes.

Any notice of optional redemption given pursuant to the Trust Agreement may be rescinded by written notice given by the District to the Trustee no later than five (5) Business Days prior to the date fixed for redemption. The Trustee will give notice of such rescission as soon thereafter as practicable to the same parties and in the same manner as the notice of redemption was given.

Selection of Series C Notes for Redemption. Whenever provision is made in the Trust Agreement for the redemption of less than all of the Series C Notes, the Trustee will select the Series C Notes to be redeemed within a maturity by lot in any manner that the Trustee in its sole discretion deems appropriate and fair. The Trustee will promptly notify the District in writing of the Series C Notes or portions thereof so selected for redemption.

Effect of Redemption. If notice of redemption has been duly given and not rescinded as described above, and moneys for payment of the Redemption Price of the Series C Notes (or portions thereof) to be redeemed, together with interest accrued thereon to the date fixed for redemption, is held by the Trustee, and such other conditions (if any) set forth in the related notice have occurred or been duly satisfied, then on the redemption date designated in such notice, the Series C Notes (or portions thereof) so called for redemption will become due and payable at the Redemption Price specified in such notice and interest accrued thereon to the redemption date. Interest on the Series C Notes (or portions thereof) being redeemed will cease to accrue, said Series C Notes (or portions thereof) will cease to be entitled to any benefit or security under the Trust Agreement, and the Holders of said Series C Notes will have no rights in respect thereof except to receive payment, from funds held by the Trustee for such payment, of said Redemption Price and interest thereon accrued to the date fixed for redemption.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES C NOTES

General

The Series C Notes are revenue notes and are payable, as to both principal and interest thereof, exclusively from the Available Mezzanine Revenues of the System on a parity with the District's outstanding Contra Costa Water District Water Revenue Notes (collectively, the "Notes") and other Parity Mezzanine Debt. Neither the credit nor the taxing power of the District is pledged to the payment of the Series C Notes. The owners of the Series C Notes cannot compel the exercise of any taxing power of the District or the forfeiture of any of its property. The Series C Notes are not a legal or equitable pledge, charge, lien or encumbrance upon any of the District's property (including the System) or upon any of its income, receipts or revenues except the Revenues of the System to the extent of the pledge thereof contained in the Trust Agreement. Amounts held from time to time in the Interest Fund, Principal Fund and Redemption Fund are also pledged to secure the payment of the Series C Notes. **Payments on the Series C Notes are subordinate to payments on the Senior Debt.**

Pledge of Revenues

The Revenues, subject only to the provisions of the Trust Agreement permitting the application thereof for the purposes and on the terms and conditions set forth therein and as described below, are pledged to the payment of the Notes authorized by, and at any time outstanding pursuant to, the Trust Agreement, including the District's Water Revenues Notes, Series A (the "Series A Notes"), Water Revenue Notes, Series B (the "Series B Notes") and, when issued, the Series C Notes, and any other Parity Mezzanine Debt issued in accordance with the Trust Agreement. The pledge of Revenues constitutes a charge and lien on and security interest in such assets.

The Revenues are pledged to the payment of the Notes and Parity Mezzanine 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:** In accordance with the Senior Bond Resolution, there shall be applied all sums required for the payment of the principal of (including any premium thereon) and interest on the Senior Debt, together with any sinking fund or reserve fund payments on the Senior Debt and any deposits required to the Senior Bond Reserve Fund under the Senior Bond Resolution.
- Third:** There shall be applied all sums required for the payment of the principal of (including any premium thereon) and interest on the Notes and all Parity Mezzanine Debt, together with any reserve fund payments of Notes and Parity Mezzanine 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 Notes and all Parity Mezzanine Debt are no longer Outstanding. See "– Outstanding Debt of the District – Notes and Parity Mezzanine Debt" for information on the Outstanding Notes.

"Revenues" is generally defined in the Trust Agreement to mean 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 Trust Agreement or under the Senior Bond Resolution (other than any fund established pursuant to a Tax 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 TRUST AGREEMENT."

"Maintenance and Operation Costs" is generally defined in the Trust Agreement to mean (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 (as defined in APPENDIX B – "SUMMARY OF THE TRUST AGREEMENT – 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).

“Senior Bond Resolution” means Resolution No. 87-50, adopted on the 15th day of October, 1987, by the Board of Directors of the District, providing for the issuance of Contra Costa Water District Water Revenue Bonds and Contra Costa Water District Water Revenue Refunding Bonds (also referred to herein as “Senior Bonds,”) as it may from time to time be supplemented, modified, or amended by any supplemental resolution of the Board of Directors of the District in accordance with the terms of the Senior Bond Resolution.

“Senior Debt” means Contra Costa Water District Water Revenue Bonds and Contra Costa Water District Water Revenue Refunding Bonds issued pursuant to the Senior Bond Resolution and Parity Debt (as defined in the Senior Bond Resolution, referred to herein as “Senior Parity Debt”). As of September 1, 2014, the District had outstanding Senior Debt in the aggregate principal amount of \$384,200,000. See “Outstanding Debt of the District – Senior Debt.”

Rate Covenant; Debt Coverage

So long as any of the Notes are outstanding, the District will, to the fullest extent permitted by law, 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, will produce sufficient Net Revenues in each Fiscal Year so that the Annual Mezzanine Debt Service Coverage Ratio (which is the ratio of Net Revenues to Annual Debt Service) at the end of each Fiscal Year is not less than 1.25:1.0. 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 Annual Mezzanine Debt Service Coverage Ratio requirements. The District covenants in the Trust Agreement that it shall increase such rates, fees and charges to produce Net Revenues sufficient to meet such requirements.

See APPENDIX B – “SUMMARY OF THE TRUST AGREEMENT – DEFINITIONS” for definitions of certain capitalized terms used herein.

Rate Stabilization Fund

The District is required by the Senior Bond Resolution 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 Notes.** 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 Senior Bond 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 Senior Bond Resolution. The Rate Stabilization Fund was established and is being maintained to assist the District to manage rates in connection with the issuance of Senior Debt. As of July 1, 2014, the balance in such fund was \$56,880,000. The moneys in the Rate Stabilization Fund are available to assist in compliance with the rate covenant described herein.

No Debt Service Reserve Fund

A debt service reserve fund has not been established or funded for the Series C Notes.

Allocation of Available Mezzanine Revenues under the Trust Agreement

So long as any Notes are outstanding, the District shall transfer Available Mezzanine Revenues to the Trustee for deposit in the following respective funds (each of which the Trustee shall establish, maintain and hold in trust for the benefit of the owners of the Notes) in the following amounts, in the following order of priority, the requirements of each such fund (including the making up of any deficiencies in any such fund resulting from lack of Available Mezzanine 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 Notes on such interest payment date; and

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 Notes on such principal payment date.

All moneys in the Interest Fund, the Principal Fund and Redemption Fund are pledged to the punctual payment of the principal of and interest on the Notes.

Limitations on the Issuance of Obligations Payable from Available Mezzanine Revenues

The District will not, so long as any of the Notes are Outstanding, issue any obligations or securities, howsoever denominated, payable in whole or in part from Available Mezzanine Revenues except the following:

- (a) Notes payable from Available Mezzanine Revenues and secured by the pledge of Revenues made under the Trust Agreement equally and ratably with Notes previously issued, provided that the following conditions are satisfied:
 - (i) No Event of Default shall have occurred and will be continuing after the issuance of such additional Series of Notes.
 - (ii) The aggregate principal amount of Notes issued hereunder shall not exceed any limitation imposed by law or by any Supplemental Trust Agreement.
 - (iii) Either
 - (A) the Mezzanine Debt Service Coverage Ratio (which is the ratio of Net Revenues to Maximum Annual Debt Service) for the most recent Fiscal Year for which audited financial statements are available, calculated as of the date of sale of such Series of Notes and including the Senior Debt, Notes and Parity Mezzanine Debt then Outstanding and such additional Series of Notes, shall not be less than 1.25:1.0; provided that in calculating the Mezzanine Debt Service Coverage Ratio:

- (1) if rates and charges in effect on the date upon which such Series of Notes 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 the estimated increase in Available Mezzanine Revenues computed to accrue to the System in the first twelve months during which such rates and charges shall be in effect; and
- (2) 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 Notes then being issued;

or (B)

- (1) The District has complied with the Annual Mezzanine Debt Service Coverage Ratio requirement described in “Rate Covenant; Debt Coverage” for the most recent Fiscal Year for which audited financial statements are available; and
 - (2) the Mezzanine 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 Notes (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 Notes is to be paid from the proceeds of such Notes) is projected to be at least equal to 1.25:1.0.
- (b) Refunding Notes in an aggregate principal amount sufficient (together with other available funds) to pay the principal or redemption price of all outstanding Notes or Parity Mezzanine Debt to be refunded, all expenses incident to the calling, retiring or paying of such Outstanding Notes or Parity Mezzanine Debt and the costs of issuance of such refunding Notes, interest on all Outstanding Notes or Parity Mezzanine Debt to be refunded to the date such Notes or Parity Mezzanine Debt will be called for redemption or paid at maturity and interest on the refunding Notes from the date thereof to the date of payment or redemption of the Notes or Parity Mezzanine Debt to be refunded.

The requirements for the issuance of Refunding Notes include among others that the District must deliver a certificate certifying the following:

- (i) Either
 - (A) the Mezzanine 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 Notes and including the Senior Debt, Notes and Parity Mezzanine Debt then Outstanding and such additional Series of Notes, shall not be less than 1.25:1.0; provided that in calculating the Mezzanine Debt Service Coverage Ratio:

- (1) if rates and charges in effect on the date upon which such Series of Notes 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 the estimated increase in Available Mezzanine Revenues computed to accrue to the System in the first twelve months during which such rates and charges shall be in effect; and
- (2) 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 (B):

- (1) the District has complied with the Annual Mezzanine Debt Service Coverage Ratio for the most recent Fiscal Year for which audited financial statements are available; and
- (2) the Mezzanine 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 Notes is projected to be at least equal to 1.25:1.0;

(c) Parity Mezzanine Debt payable on a parity with the outstanding Notes and which will have, when issued, an equal lien and charge upon the Revenues, provided that the following conditions to the issuance of such Parity Mezzanine Debt are satisfied:

- (i) Such Parity Mezzanine Debt has been duly and legally authorized for any lawful purpose.
- (ii) No Event of Default shall have occurred and will be continuing after the issuance of such obligations or securities, as evidenced in a Certificate of the District filed with the Trustee.

(iii) Either:

(A) The District delivers to the Trustee a Certificate of the District evidencing that the Mezzanine 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 Mezzanine Debt and including Senior Debt, the Notes and Parity Mezzanine Debt then outstanding and such additional Parity Mezzanine Debt, shall not be less than 1.25:1.0; provided that in calculating the Mezzanine Debt Service Coverage Ratio:

- (1) if rates and charges in effect on the date upon which such Parity Mezzanine 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 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

- (2) Net Revenues may be augmented by 75% of the projected increase in annual Available Mezzanine Revenues to be provided by additional facilities under construction (financed from any source);

-or-

(B) The District delivers to the Trustee a Certificate of the District to the effect that:

- (1) the District has complied with the Mezzanine Debt Service Coverage Ratio for the most recent Fiscal Year for which audited financial statements are available; and
- (2) the Mezzanine 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 Mezzanine Debt (or, if later, the first full Fiscal Year in which less than 10% of the interest coming due on such additional Parity Mezzanine Debt is to be paid from the proceeds of such Parity Mezzanine Debt) is projected to be at least equal to 1.25:1.0.

(iv) The District delivers to the Trustee an Opinion of Bond Counsel to the effect that such Parity Mezzanine Debt has 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, purchase price, premium and interest for the Notes and all Parity Mezzanine Debt and which subordinated obligations are payable as to principal, premium, interest and reserve fund requirements, if any, only out of Available Mezzanine Revenues after the prior payment of all amounts required to be paid from Available Mezzanine Revenues for principal, purchase price, premium and interest for the Notes and all Parity Mezzanine Debt, as the same become due and payable and at the times and in the manner as required in the Trust Agreement.

Additionally, the District shall not issue any bonds, securities or other obligations payable from Available Mezzanine Revenues or otherwise while it is in default under any provision of the Trust Agreement, except for the sole purpose of refunding sufficient Notes or Parity Mezzanine Debt then Outstanding to cure such default.

See APPENDIX B – “SUMMARY OF THE TRUST AGREEMENT – DEFINITIONS” for definitions of certain capitalized terms used herein.

Limitations on Encumbrances

The Trust Agreement provides that the District will not mortgage or otherwise encumber, pledge, or place any charge upon the System or any part thereof, and the District will not create any pledge, lien or charge upon any of the Revenues except only as permitted by the Trust Agreement in connection with the issuance of obligations or securities payable from Available Mezzanine Revenues as described under

“Limitations on the Issuance of Obligations Payable from Available Mezzanine Revenues” above or as permitted by the Senior Bond Resolution.

Issuance of Senior Debt; Amendment of Senior Bond Resolution

The District covenants in the Trust Agreement to not issue or incur additional Senior Debt except in compliance with the Senior Bond Resolution.

Additionally, the District has covenanted in the Trust Agreement not to amend, modify or supplement the Senior Bond Resolution except in compliance with the Senior Bond Resolution. No such amendment, modification or supplement shall permit the creation of any lien on the Revenues prior to or on a parity with the lien created by the Trust Agreement without the consent of the holders of all of the Notes and Parity Mezzanine Debt then outstanding.

Provisions from Senior Bond Resolution Relating to Limitations on Issuance of Obligations Payable from Net Revenues

For a discussion of certain provisions of the Senior Bond Resolution relating to limitations on issuance of Obligations payable from Net Revenues see APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS FROM SENIOR BOND RESOLUTION RELATING TO LIMITATIONS ON ISSUANCE OF OBLIGATIONS PAYABLE FROM NET REVENUES.”

Outstanding Debt of the District

Appendix E to the Official Statement shows a summary of the District’s current debt service obligations including both principal and interest for outstanding Senior Debt and Parity Mezzanine Debt.

Notes and Parity Mezzanine Debt. As of September 1, 2014, the District will have \$39,175,000 of its Series A Notes and \$59,820,000 of its Series B Notes outstanding. The Series A Notes and Series B Notes maturing on October 1, 2014, in the principal amount of \$5,655,000 and \$20,000,000, respectively, are expected to be refunded from proceeds of the Series C Notes. The Series A Notes were used to finance certain capital improvements of the District and to refund the District’s Commercial Paper Notes. See “– Other Debt” below. The Series B Notes were used to finance certain capital improvements of the District. The Series C Notes will be secured by Available Mezzanine Revenues on a parity with the Series A Notes and Series B Notes that remain Outstanding and any other Parity Mezzanine Debt.

Senior Debt. As described herein, the Notes, including the Series C Notes, and other Parity Mezzanine Debt are subordinate to and payable from Net Revenues after the payment of the principal of and interest on, Senior Debt. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES C NOTES – Pledge of Revenues.” Senior Debt consists of the District’s Water Revenue Bonds and Water Revenue Refunding Bonds issued under the Senior Bond Resolution and Senior Parity Debt (which includes the Authority Bonds described further below) issued in accordance with the additional indebtedness provisions of the Senior Bond Resolution. See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS FROM SENIOR BOND RESOLUTION RELATING TO LIMITATIONS ON ISSUANCE OF OBLIGATIONS PAYABLE FROM NET REVENUES.” As of August 1, 2014, the District had outstanding Senior Debt in the aggregate principal amount of \$384,200,000 consisting of the following:

	Principal Amount Outstanding as of <u>August 1, 2014</u>
<u>District – Water Revenue Bonds</u>	
Senior Series O Bonds	\$ 53,500,000
Senior Series P Bonds	29,570,000
Senior Series Q Bonds	87,115,000
Senior Series R Bonds	91,670,000
<u>Senior Series T Bonds</u>	<u>99,405,000</u>
Total:	\$361,260,000
 <u>Authority</u>	
<u>Series A Bonds</u>	<u>\$22,940,000</u>
Total:	\$22,940,000
 Total Senior Debt	 \$384,200,000

As shown in the table above, the Contra Costa Water Authority Revenue Refunding Bonds, 2012 Series A (the “Authority Bonds”), were outstanding as of September 1, 2014, in the aggregate principal amount of \$22,940,000. The principal of and interest on the Authority Bonds are payable from rental payments made by the District to the Contra Costa Water Authority pursuant to a Facility Lease. The District’s obligation to make rental payments constitutes Senior Parity Debt under the Senior Bond Resolution and Senior Debt under the Trust Agreement.

As mentioned under the heading “– Issuance of Senior Debt; Amendment of Senior Bond Resolution” and in APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS FROM SENIOR BOND RESOLUTION RELATING TO LIMITATIONS ON ISSUANCE OF OBLIGATIONS PAYABLE FROM NET REVENUES,” the District may issue additional Senior Debt pursuant to the provisions of the Senior Bond Resolution. On June 19, 2013, the District approved the issuance of not to exceed \$80,000,000 in principal amount of Water Revenue Bonds (the “Series S Bonds”) for the purpose of refunding certain Notes 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. The issuance of the Series S Bonds is subject to the provisions described below under “-- Limitations on the Issuance of Obligations Payable from Net Revenues.”

Other Debt. 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 Water Revenue Notes that matured on October 1, 2012. On September 9, 2013, the District retired \$11,000,000 of outstanding Extendable Commercial Paper that was deemed to be unneeded at present, due to the rescheduling of certain capital projects. 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 Senior Debt and to the Notes and other Parity Mezzanine Debt. The outstanding balance for Extendable Commercial Paper indebtedness as of September 1, 2014, was \$39,000,000.

As described under the heading “– Limitations on the Issuance of Obligations Payable from Available Mezzanine Revenues” above, the District may issue indebtedness that is junior or subordinate to the Series C Notes under the Trust Agreement.

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 is one of the largest urban water districts in California and a leader in drinking water treatment technology and source water protection. 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 (“Canal”), which transports water from screened intakes in the Sacramento-San Joaquin Delta (“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.

Cities and unincorporated communities served by the District 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 300 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 East Bay Leadership 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 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. 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. Ms. Boatmun is a member of the ACWA's Past Presidents Council. She also serves on ACWA's Joint Powers Insurance Authority Employee Benefits Committee. She currently holds chair positions on the Governing Board of East County Water Management Association and the Contra Costa Special Districts' Association ("CSDA") and was 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 was also selected Public CEO's Special Districts Official of the Year in 2011. In 2013, she

received the Hollingsworth Award of Excellence which recognizes individuals “who exemplify what it means to go above and beyond the call of duty and advocate extensively for both the CSDA and special districts.” Ms. Boatman 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, a consultant for the Job Corps, and an instructor at Holy Names College.

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 Diplomat of the American Academy of Environmental Engineers and Scientists. He is an Air Force veteran and a resident of Concord for over 25 years. He is President of the Contra Costa Historical Society. 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 Women’s 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 27 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 led 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 Sustainability Committee with the Association of Metropolitan Water Agencies. He is a Board member of the California Urban 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 and Vice Chairman of CalDesal, and is also engaged in work with the Water Research Foundation as a member of the Project Advisory Committees 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 Bachelor's 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”)/Lands for the District since January 2008. He has 23 years of experience in planning, design, construction, operations, and maintenance of water systems for urban and industrial service areas. 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 is a registered Civil and Structural Engineer in California. He 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 to Assistant General Manager – Administration in May 2013. 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. 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 promoted to Director of Finance in May 2013 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 has approximately 300 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 175 members of the Clerical/Maintenance Representation Unit. The current Memorandum of Understanding with Local 39 covers the term of July 1, 2007 through November 8, 2015. The International Federation of Professional and Technical Engineers, Local 21 (“Local 21”), represents approximately 95 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.

Special District Recognition

The District was recently the first recipient of the Special District Leadership Foundation’s (SDLF) Transparency Certificate of Excellence. SDLF established this new program in 2013 to evaluate transparency in the operations and governance of special districts and provide special districts recognition for complying with best practices. The District earned the award by successfully demonstrating completion of essential governance transparency requirements, fulfilling website requirements, and demonstrating regular community outreach and engagement in its governance. The District was recognized for its efforts on the SDLF website, California Special District Association (CSDA) e-News, and with letters to legislators within the District’s boundaries. In honor of the District’s achievement, California State Assembly Member Jim Frazier presented the District with an Assembly Certificate of Recognition at the Board of Directors’ October 2, 2013 meeting.

Insurance

The District maintains the following liability insurance coverage:

Primary Excess Liability Policy: Special District Risk Management Authority (“SDRMA”). 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: Evanston Insurance Company. Limit of \$10 million, in excess of \$10 million (primary policy limit).

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

In addition to primary excess liability coverage, SDRMA also provides property insurance for \$150 million for 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; and \$2 million Extra Expense.

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. No forms of compensation other than basic compensation are considered to determine the retirement benefit. The plan is funded by employee and employer contributions. As of June 30, 2013, there were 290 active members in the plan. Retired members and beneficiaries currently receiving benefits number 273. Inactive members total 90 members, for total plan membership as of June 30, 2013 of 653 members. As of June 30, 2013, there was a \$26.8 million unfunded pension benefit obligation, and the funded ratio was 82.5%. From June 30, 2012 to June 30, 2013, the District's funded ratio increased from 75.9% to 82.5% on an actuarial basis, and the unfunded obligation was reduced from \$33.3 million down to \$26.8 million. This is in part due to an additional voluntary contribution of \$4.5 million in June 2013. As the District has recognized gains in four of the past five fiscal years, it currently anticipates a continued increase in the funded ratio. The District has lowered the projected rate of return assumption on plan assets from 8.0% to 7.5% to help ensure the annual actuarially determined contributions are sufficient to meet the funding requirements of the plan. The projected annual pension cost for fiscal year 2014 is \$5.6 million and is included in operation and maintenance expenses.

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 offers post-retirement health care benefits. Beginning in 2008, these benefits are paid through the Contra Costa Water District Other Post-Employment Benefit ("OPEB") Trust. As of June 30, 2013 there were 206 retirees or their beneficiaries receiving these health care benefits. These benefits are provided through payments to an insurance company. The cost of the actual benefits paid to beneficiaries totaled \$2.4 million in fiscal year 2013 and is included in operation and maintenance expenses. The OPEB Trust was established based on the provisions of The Government Accounting Standards Board Statement No. 45 ("GASB 45"). As part of the implementation, the District established an irrevocable trust to provide a funding mechanism for the OPEB. As of June 30, 2014, the District had \$26.0 million in the OPEB Trust, which represents a funded ratio of 32% on an actuarial basis. The District's total OPEB obligation is \$81.1 million based upon the most recent actuarial analysis using June 30, 2013 results. The District has up to 30 years to fully fund its liabilities under GASB 45, and is slightly over a year ahead of this required funding schedule. As of June 30, 2013, the actuarially determined Annual Required

Contribution (ARC) to fund the \$81.1 million OPEB obligation is \$5.5 million. The ARC is funded through a combination of budgeted District contributions and employee contributions in the form of payroll deductions. Employee contributions comprise approximately 50% of the annual normal cost as calculated by the actuary. The District also contributes a portion of its annual positive results as compared to the District's financial plan to fund the remainder of the ARC and also provides some additional funding to stay ahead of the required 30-year funding schedule. The OPEB Trust actuarial uses the same 7.5% assumed rate of return on assets as the Retirement plan to ensure the actuarially determined ARC is sufficient to fund the OPEB liability.

The next actuarial reports for both the Retirement Plan and OPEB Trust will be based on the fiscal year 2014 audited financial statements, and presented to the Board of Directors for acceptance in December 2014.

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 June 30, 2014, the District's investments include approximately 17% in investable cash and cash equivalents with maturities of 90 days or less and the balance in U.S. government securities, and corporate bonds. The ratio of total cash in the District Portfolio was 29%.

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 105,000 acre-feet annually to service the District's customer base. The District's water deliveries 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 170,000 acre-feet annually by 2020. The water supply that the District is authorized to divert under its current incidental take permit from the California Department of Fish and Wildlife is 222,000 acre-feet annually, which is more than sufficient to meet both its current annual water demand and its projected total annual water demand in 2020.

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

CVP includes reservoirs on the Trinity, Sacramento, American, Stanislaus, and San Joaquin Rivers. Water from Trinity River is stored and re-regulated in Clair Engle Lake, Lewiston Lake, and Whiskeytown Reservoir, and diverted through a system of tunnels and power plants into the Sacramento River and the Delta. Water is also stored and re-regulated in Shasta Lake and Folsom Lake.

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 contractually available from the 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 total costs estimated at \$13.0 million. The District currently levies a property 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 on the Water Revenue Bonds.

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 \$21.08 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 \$19.98 per acre-foot, for municipal and industrial (M&I) 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 fiscal year 2014, \$2,510,455 of the District payments to Reclamation 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 M&I Shortage Policy included in the Reclamation Contract establishes a water delivery goal for M&I contractors 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 M&I Shortage Policy 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 M&I Shortage Policy provides that the delivery of CVP water will not be less than 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.

The District received allocations from the CVP of 100%, or the full contract amount of 195,000 acre-feet in water supply years 2010 through 2012. Dry conditions in 2013 led to an allocation of 75% of historical use, or 127,500 acre-feet.

In January 2014, Governor Jerry Brown declared a drought emergency for the State of California. Shortages were subsequently declared for the CVP in Reclamation’s water supply year 2014. The 2014 allocations to the District were reduced to 50% of historical use, equating to 85,000 acre feet. The District currently has sufficient water supplies, including the expanded storage at Los Vaqueros Reservoir, to meet all anticipated demands for conservation-minded indoor residential and business use. On March 19, 2014 the District established a 15% Voluntary Drought Management Program to encourage customers to implement good conservation practices, particularly regarding outside landscaping in order to reduce the demand on Los Vaqueros storage. In this way, Los Vaqueros storage can be preserved and used in the future should the drought extend beyond the current year. Additional information on the District’s drought program is provided in the section titled “2014 Drought Response.” The references provided within this document to water allocations, deliveries and financial projections reflect the anticipated impacts of the drought.

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 (Oct- Sept)	Acre-Feet Allocated	Acre-Feet Delivered
2010*	195,000	59,460
2011†	195,000	90,085
2012†	195,000	125,718
2013†	127,500	120,700
2014**	85,000	85,000 (Projected)

* 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 decreased 2014 allocation of 85,000 acre feet is the result of the water shortage declared for the CVP due to statewide drought conditions.

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 water quality objectives. 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 up to 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. The District received 6,000 acre feet from ECCID in Calendar Year 2012 and none in Calendar Years 2013 and 2014.

In total, the District has 329,830 acre-feet of potential 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

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. Overall, the Incidental Take Permit issued by the California Department of Fish and Wildlife currently limits annual diversions to a maximum of 222,000 acre feet. Even with these limitations, the District's total available annual water supply is more than sufficient to meet the total water demands of its service area.

The District built and financed the expansion of Los Vaqueros Reservoir to 160,000 acre-feet, and as of July 31, 2014 utilized capacity was at 125,000 acre feet. The District does not need all of the remaining expanded storage capacity in the near-term for its own uses. Therefore, in light of this available capacity, the District has been exploring integrated regional water management partnerships with other Bay Area water agencies to improve regional water supply reliability. On September 10, 2013, CCWD and East Bay Municipal Utility District (EBMUD) entered into an agreement that provides EBMUD the option to purchase up to 2,000 acre-feet of water stored in Los Vaqueros Reservoir in the next ten years. On February 13, 2014, CCWD and Alameda County Water District (ACWD) entered into an agreement for CCWD to sell ACWD 5,000 acre-feet of water stored in Los Vaqueros Reservoir, to be transferred to ACWD in 2014. ACWD will reimburse CCWD for the cost of conveyance and storage of this water, in the amount of \$506,666 in FY14. Releases of water in support of the ACWD transfer were initiated on July 15, 2014. Additional cost reimbursement of between \$30,000 and \$175,000 will be recognized in FY15, depending on the date of completion for the delivery of the water, which is currently anticipated for August/September 2014.

California water conditions continue to be extremely difficult to predict. Following above average precipitation during December 2012, the following 12 month-period was among the driest on record. Therefore, after two years of allocating 100 percent of the District's deliveries, Reclamation modified the 2013 allocation to 75 percent of the District's historical municipal and industrial use. The resulting allocation of 127,500 acre feet of CVP water, in conjunction with the District's other water supplies, was sufficient to meet projected needs and allowed for continued refilling of the Los Vaqueros Reservoir. Reclamation's 2014 allocation of 50 percent of historical municipal and industrial use (85,000 acre feet), supplemented by storage from Los Vaqueros Reservoir will provide sufficient supply to meet the needs of the District's conservation-minded indoor residential and business water use. Emphasis on conservation, particularly for external residential uses will minimize the amount of water required from the Los Vaqueros Reservoir.

The following table shows annual water deliveries from 2010 through 2014:

**DISTRICT'S TOTAL ANNUAL WATER
DELIVERIES TO CUSTOMERS**

Calendar Year	Water Deliveries in Acre-Feet
2010	93,011
2011	94,123
2012	104,414
2013	109,535
2014	97,200 (projected)

The District continues to re-evaluate the pace of economic recovery and rebound in water sales in its current 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. See "WATER SYSTEM FINANCES – Ten-Year Capital Improvement Program and Financial Plan."

2014 Drought Response

The District's Urban Water Management Plan ("UWMP") provides guidelines for ensuring adequate water supplies are available to reliably meet water demands during both normal and dry year conditions. In accordance with the UWMP, the District is addressing current drought conditions with the implementation of a 15% Voluntary Drought Management Program focused on reducing outdoor water use. The 15% goal for residential customers is based on their average usage during 2005-2007. This baseline is consistent with the amounts used during the District's 2009 Drought Program and has been chosen so that those who have begun conserving will not be penalized. The District also established prohibitions against wasteful water use; examples include using District-furnished water to irrigate outside landscape during the hours of 9:00 a.m. and 5:00 p.m., wash paved surfaces, or to wash a vehicle using a hose without a shut off nozzle. Outside watering that results in excess flooding or runoff into a paved surface is also prohibited.

In addition, the District continues to discourage the wasteful use of water through the application of excess use charges to retail users. To assist customers in achieving the 15% reduction goal, the District is increasing its outreach, education, and conservation services. Conservation-minded indoor and business/industrial demands will be met with CVP supplies. Outdoor demands will be met through a combination of LV storage, ground water supply, and available water transfers. By targeting reductions in discretionary outdoor water use, the District can manage overall water demands in order to preserve storage in LV in the event of a continuing drought without impacting economic growth in the service area.

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.

Delta water is drawn from four intakes (all with fish screens): the Rock Slough Intake near Oakley, the Old River Intake near Discovery Bay, the Middle River Intake on Victoria Canal and the Mallard Slough Intake in Bay Point. Depending on the intake and where the water is needed, the water is diverted into the Contra Costa Canal and conveyed to treatment plants and reservoirs located throughout eastern and central Contra Costa County or to a reservoir for storage and future use. 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 Reservoir. Los Vaqueros facilities include a dam, a reservoir, pipelines, pumping stations, the Delta intakes 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.

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 described under the caption "WATER SYSTEM FINANCES – 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 Future Water Supply Study is currently being updated and is scheduled to be completed in fall 2014.

California Water Policy Framework

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").

The first phase of Los Vaqueros enlargement to 160,000 acre-feet was funded by the District and completed in July 2012. The District expects within the next few years to fill the reservoir to its enlarged capacity and pilot projects with Bay Area water agencies are ongoing to provide drought supply benefits to the region. A second phase of enlargement would provide additional water quality and water supply reliability benefits for the Bay Area as well as Delta environmental enhancement. Reclamation is providing funding for the effort to study this potential second phase of expansion and the District is the local manager under contract to Reclamation and the California Department of Water Resources ("DWR") responsible for implementing the engineering feasibility studies and environmental review. Future phases to expand the reservoir beyond 160,000 acre-feet and provide regional interties, if pursued, are expected to be fully funded by Federal, State or other local partnering agencies, not by the District.

Any future reservoir expansion would be implemented in a manner consistent with the Delta Reform Act and the Delta Plan.

On July 25, 2012, Governor Jerry Brown and Secretary of the Interior Ken Salazar announced key proposed elements to advance the Bay Delta Conservation Plan (“BDCP”) planning process, including north Bay-Delta water diversion facilities with a total capacity of 9,000 cubic-feet per second (“cfs”), two tunnels sized to minimize energy use during operations and a “decision tree” process for unresolved operation criteria such as fall and spring outflows. The Draft BDCP and associated Draft Environmental Impact Report/Environmental Impact Statement were completed on December 13, 2013. Preliminary cost estimates for the BDCP are approximately \$25.0 billion. When a decision approving the final project has been made, costs will be updated and allocated among the direct beneficiaries of the BDCP. The District does not believe that it will be responsible for any of the costs of the BDCP, and is taking appropriate steps to ensure that the BDCP, if implemented, would fully mitigate for any significant impacts on the District’s facilities, water supply and water quality.

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 State Water Resources Control Board – Division of Drinking Water (DDW). 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, 2010 and 2013; the next report will be released during 2016. 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. 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 DDW well ahead of the dates required in the new rule. The DDW 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 completed in November 2012 and results indicate that all current treatment technologies utilized by the District meet cryptosporidium inactivation requirements. A second round of compliance sampling for LT2ESWTR is scheduled to begin in 2015.

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 DDW 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 next update is scheduled for 2015.

The District conducts a regular 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. During periods of drought, frequency of systematic flushing is reduced and replaced by additional monitoring programs.

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, including the District's headquarters building, which houses the District's Information Systems and Customer Service functions. Construction of the seismic and other life safety improvements (addition of fire sprinklers and improved fire lighting and alarms) is scheduled to begin in February 2015. 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.

WATER SYSTEM FINANCES

Ten-Year Capital Improvement Program and Financial Plan

The District annually undertakes a long-range capital improvement and financial planning process that results in a Ten-Year Capital Improvement Program ("CIP") and Financial Plan. 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. Each CIP is based on numerous assumptions (including, among others, rate increases), and actual results will differ, perhaps significantly, from the results projected in the CIP. Implementation of the CIP requires Board action throughout the forecast period, and there is no assurance that such action will be taken in the manner contemplated by the CIP.

The 2015-2024 Capital Improvement Program and Ten-Year Financial Plan ("2015 CIP"), adopted by the Board in February 2014, includes 51 projects with a total estimated cost of approximately \$559.8 million. Within each program area of the Ten-Year Capital Improvement Program and Financing 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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	TOTAL
District Funded/Funded by Others	\$36.5	\$18.5	\$20.0	\$20.6	\$26.1	\$22.5	\$26.6	\$40.2	\$38.7	\$33.3	\$283.1
(Priority Level 1&2)											
Debt Funded ⁽¹⁾	6.0	3.8	0.6	2.2	0.6	2.4	0.0	0.0	0.0	0.7	16.3
Total Funded	42.5	22.3	20.6	22.8	26.7	24.9	26.6	40.2	38.7	34.0	299.4
Priority Level 3 - Unfunded	0.3	1.2	5.4	32.3	47.2	42.5	21.8	57.1	40.7	12.0	260.4
Total Capital Projects	\$42.7	\$23.5	\$26.0	\$55.0	\$74.0	\$67.4	\$48.3	\$97.3	\$79.5	\$46.0	\$559.8

⁽¹⁾ The District expects to issue additional Notes to finance these projects through Fiscal Year 2021, at which time the District expects to issue Senior Debt to refinance the outstanding 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 2015 CIP assumes that priority level 1 and 2 projects totaling \$299.4 million are funded, of which \$16.3 million is anticipated to be debt funded. This total funded level is \$0.7 million lower than the 2014 CIP funded level (\$300.1 million). The decrease in funded projects is primarily the net result of inflation, progress on projects, and increased investments required to begin to modernize the Contra Costa Canal and untreated water facilities. The District develops rates that include funding for mandatory and necessary (priority level 1 and 2) projects, but not for discretionary (priority level 3) 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.

In developing the 2015 CIP, the District adjusted the water sales projections from previous plans to be more representative of current conditions, where customer water use has increased over the past few years but is still short of levels seen before the recession. Water sales projections in the first five years of the 2015 CIP were lowered slightly compared to the previous CIP due to a 2014 base year that is expected to come in below previously projected levels. A gradual upward trend is projected through 2020, approaching levels similar to those observed before the drought and economic downturn. Water sales beyond 2020 are projected to level off to reflect the lower per capita water use required by the provisions of Senate Bill X7-7 requiring a 20% reduction in per capita water use by 2020 ("20x2020"). The District is incorporating its 20x2020 compliance plan as part of the 2014 update of its Future Water Supply Study. The 20% reduction goal is based on the District's average water use for the ten-year period ending in

2004. The District is on track to meet the reduction goal with current water use efficiency efforts, including local water recycling projects and continued water conservation programs.

Consistent with the previous CIP, the 2015 CIP contemplates that the District will continue to invest in conservation and cost-effective recycled water projects to increase water use efficiency and comply with the 20x2020 legislation. The adjusted water sales projections in the 2015 CIP have a negative financial plan impact of approximately \$27.0 million offset partially by reduced debt levels. The 2015 CIP includes a Ten-Year Financial Plan to address the reduced revenues, without impacting service levels and consistent with the Board's rate and reserve policies.

The 2015 CIP continues to reflect the District's progress towards sustainability through investments that diversify sources of water supply, improve water quality, and encourage conservation of water and energy. The District has made significant investments in new projects such as the Los Vaqueros Reservoir Expansion, Middle River Intake, and Los Vaqueros Energy Recovery Project. These projects have improved water supply reliability and water quality, which provides greater certainty in operations and reduces the variability in year-to-year operating costs.

With the completion and successful implementation of these new facilities, the focus of the 2015 CIP shifts from investment in new facilities to the continued investment in critical existing District infrastructure, consistent with current master plans and studies. The most significant funding increase is recommended for the Untreated Water Facility Improvement Program to begin modernizing the main Contra Costa Canal and Loop Canal. The main Canal is approaching 80 years of continuous service and improvements are necessary to ensure that the water delivery system continues to operate reliably, safely, sustainably, and economically in the coming decades. Additional funding of \$7.8 million has been added to this program in the 2015 CIP, in addition to the \$4.4 million added to the CIP last year. A significant project to begin to modernize the Canal facilities is scheduled to start at the end of the 2015 CIP forecast period.

The District expects to fund all of the priority level 1 and 2 projects in the 2015 CIP, as well as all operating costs and debt service obligations, with revenue increases over the ten-year CIP planning period that are within the Board's rate policy. The 2015 CIP includes \$299.4 million of priority level 1 and 2 capital projects with no additional rate-funded O&M costs and no additional staff. The 2015 CIP also includes new funding for long-term obligations including pensions and Other Post Employment Benefits (OPEB) of \$1.0 million annually beginning in 2022 to further fund the actuarially determined unfunded liability. The CIP assumes an annual average inflation rate of 4.0%. The projected annual revenue increases over the ten years range between 3.5% and 3.75%. The District expects to achieve these consistently modest increases by reducing 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 2015 CIP forecast period.

The 2015 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 approved for 2014 were 3.2% for both untreated and treated water. The 3.2% revenue increase provides sufficient revenues to fund operating and capital expenditures, maintain adequate coverage of annual debt service, and avoid rate volatility. 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>Actual</u>					<u>Projected – 2015 Financial Plan</u>				
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Untreated Water	2.75%	2.90%	3.50%	3.50%	3.20%	3.75%	3.75%	3.75%	3.75%	3.75%
Treated Water	2.75%	2.90%	3.50%	3.50%	3.20%	3.50%	3.50%	3.75%	3.75%	3.75%

Water Sales Revenue

Total operating revenue from water sales during FY2013 was \$104.0 million. Of the total, untreated water customer sales accounted for approximately \$36.4 million, with treated water sales adding another \$67.6 million. The following table sets forth a five-year history of operating revenues provided by untreated water and treated water sales as of FY2013. The District's FY2014 results are pending audit review.

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)
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
2013	36,373	33.5	67,593	62.2	108,626

- (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 accounted for approximately 58% of the water sales by volume in FY2013, 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 48% of untreated water revenue. Industrial customers account for approximately 44% of untreated water revenue. Demand from the existing major industrial customers is relatively constant. The balance (approximately 8%) of untreated water revenue is generated from the District's irrigation customers and other miscellaneous services.

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 FY2013.

**LARGEST UNTREATED WATER CUSTOMERS, WATER CONSUMPTION
AND WATER SALES REVENUES
Fiscal Year 2013**

<u>Major Municipal Customers:</u>	<u>Consumption</u>		<u>Revenues</u>	
	<u>Acre feet</u>	<u>Percent</u>	<u>000's</u>	<u>Percent</u>
City of Antioch	11,597	19%	\$ 7,023	19%
City of Pittsburg	7,912	13%	\$ 4,819	13%
Diablo Water District	5,427	9%	\$ 3,156	9%
City of Martinez	4,543	8%	\$2,724	7%
Subtotal	29,479	49%	\$ 17,722	48%
<u>Major Industrial Customers:</u>				
Shell Refinery	12,203	20%	\$ 7,322	20%
Tesoro Refinery	9,588	16%	\$ 5,803	16%
USS/POSCO Industries	3,069	5%	\$ 1,886	5%
Subtotal	24,860	41%	\$ 15,011	41%
All Other Customers	5,786	10%	\$ 3,640	11%
Total	60,125	100%	\$ 36,373	100%

Treated Water

The treated water customers generated water sales revenues of about \$67.6 million in FY2013. 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 FY2013.

**TREATED WATER
Active Accounts, Water Consumption by Type of Customer and Water Sales Revenue
Fiscal Year 2013**

	<u>ACTIVE ACCOUNTS</u>		<u>METERED CONSUMPTION</u>		<u>SALES REVENUE</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	56,210	92%	26,186	61%	51,258	76%
Commercial & Industrial	3,168	5%	5,149	12%	9,426	14%
Public Facilities	229	0%	991	2%	5,734	8%
Municipal & Other	1,560	3%	10,474	25%	1,175	2%
Total	61,167	100%	42,800	100%	67,593	100%

The following table presents a five-year record through FY2013 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
2009	37,161	102
2010	30,275	83
2011	29,979	82
2012	31,241	86
2013	33,538	92

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. See ‘CONSTITUTIONAL LIMITATIONS ON TAXES AND APPROPRIATIONS – Article XIII A of California Constitution.’ The tax 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 6.3% of the District’s total revenues in FY2013. These contributions are used to pay for the capital costs associated with providing facilities 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.

The District establishes and collects rates and charges for both its treated water customers and its untreated water customers. The District bills its untreated water customers monthly and its treated water customers on a bimonthly basis.

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TREATED WATER RATES & CHARGES

Quantity Charge (per hundred cubic feet)	\$3.3007
Service and Demand Charge	The daily charge for water service is assessed by meter size. It ranges from \$0.5650 for a 5/8" meter to \$121.4750 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)	\$1.8739
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

(effective 04/01/14)

	Facilities Reserve Charges		Meter Charge
	Treated Water ⁽¹⁾	Untreated Water ⁽²⁾	Treated Water
5/8" meter	\$ 18,966	\$ 4,936	\$70.00
3/4" meter	28,450	7,404	130.00
1" meter	47,416	12,341	170.00
1-1/2" meter	94,832	24,682	Cost ⁽³⁾
2" meter	151,732	39,490	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 \$792.12. The following table sets forth a list of some other major water agencies and municipalities in Northern California and compares their average annual water service charges, reflecting information available as of February 2014. The figures are based on an average household using 350 gallons per day.

<u>Water Supplier</u>	<u>Average Annual Household Water Service Charge</u>
Golden State Water Co. (Bay Point)	\$1,047.12
City of Martinez	951.36
East Bay Municipal Utility District	825.84
Contra Costa Water District	792.12
City of Pittsburg	771.12
Marin Municipal Water District	759.24
City of Brentwood	623.88
City of Antioch	600.36
Diablo Water District	576.12

Uncollectible Revenues

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:

<u>Fiscal Year Ended June 30</u>	<u>Uncollectible Revenues</u>	<u>Percent of Water Revenues</u>
2009	\$ 277,364	0.3%
2010	\$ 330,051	0.3%
2011	\$ 220,520	0.3%
2012	\$ 244,718	0.4%
2013	\$ 166,305	0.2%

Outstanding Indebtedness

See "Outstanding Debt of the District" under "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES C NOTES" 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 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, 2013 (the "Audited Financial Statement") is included as Appendix A. The Fiscal Year 2013 Audited Financial Statement was reported on by Maze and Associates 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, 2013, 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, 2009, through June 30, 2013. The following financial results have been presented in conformity with requirements of the Trust Agreement.

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**SCHEDULE OF DEBT SERVICE COVERAGE
(PER TRUST AGREEMENT)
(In Millions of Dollars)**

	Fiscal Year ended June 30				
	2009	2010	2011	2012	2013
OPERATING REVENUES:					
Untreated Water Sales	\$35.4	\$31.9	\$31.1	\$33.4	\$36.4
Treated Water Sales	61.5	61.0	57.1	62.0	67.6
Reimbursement of Operating Expenses	4.2	3.7	4.5	4.5	4.5
Other Revenues (Misc. Service Charges)	0.2	0.2	0.1	0.1	0.1
Total Operating Revenues	\$101.3	\$96.8	\$92.8	\$100.0	\$108.6
NON-OPERATING REVENUES:					
Contributions in Aid of Construction ⁽¹⁾	\$58.6	\$6.6	\$6.1	\$7.7	\$8.1
Grants, Rents & Other Revenues ⁽²⁾	14.5	20.6	36.5	14.9	3.3
Interest Income	9.7	6.3	4.4	3.4	2.5
Property Taxes / Land Levy Taxes ⁽³⁾	N/A	N/A	N/A	N/A	N/A
Total Non-Operating Revenues	\$82.8	\$33.5	\$47.0	\$26.0	\$13.9
Gross Revenues	\$184.1	\$130.3	\$139.8	\$126.0	\$122.5
OPERATING AND MAINTENANCE EXPENSES:					
Source of Supply	\$6.7	\$5.7	\$5.4	\$6.4	\$7.8
Water Treatment	8.3	7.7	7.8	7.9	7.7
Pumping	4.6	4.2	4.5	8.0	9.0
Transmission and Distribution	1.2	1.0	1.1	1.0	0.9
Other Operation Expenses	43.4	41.7	41.0	40.0	48.4
Operations (before depreciation and debt service)	\$64.2	\$60.3	\$59.8	\$63.3	\$73.8
Less: Expenses Paid with Property Taxes ⁽³⁾	(2.4)	(1.9)	(2.1)	(2.8)	(3.6)
Total Expenses	\$61.8	\$58.4	\$57.7	\$60.5	\$70.2
Net Revenues Available for Debt Service	\$122.3	\$71.9	\$82.1	\$65.5	\$52.3
Total Senior Debt Service	42.2	43.8	44.0	42.6	36.4
Debt Service Coverage Ratio – Senior Debt Only	2.89x	1.64x	1.86x	1.54x	1.44x
Notes and Other Mezzanine Debt Service	-	-	.3	2.9	2.5
Total Senior/Mezzanine Debt Service	-	-	44.3	45.5	38.9
Debt Service Coverage Ratio – Parity /Mezzanine	-	-	1.85x	1.44x	1.34x

(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, 2012 and June 30, 2013, and for the nine-month periods ended March 31, 2013, and March 31, 2014. The information for the Fiscal Years ended June 30, 2012 and June 30, 2013, has been derived from the audited financial statements of the District included as Appendix A. The information for the nine-month periods ended March 31, 2013 and 2014 has been prepared from unaudited financial statements of the District for such periods. Results for the nine-month period ended March 31, 2014, are not necessarily indicative of the results for the full fiscal year ending June 30, 2014.

SUMMARY OF REVENUES, EXPENSES & CHANGES IN NET ASSETS (in millions of dollars)	Fiscal Years Ended June 30 (audited)		Three Quarters Ended March 31 (unaudited)	
	2012	2013	2013	2014
REVENUES:				
Untreated Water Sales	\$33.4	36.4	\$26.4	\$30.3
Treated Water Sales	62.0	67.6	50.5	53.3
Reimbursement of Operation Expenses	4.5	4.5	3.3	3.3
Other Operating Revenues	0.1	0.1	0.1	0.1
Total Operating Revenues	\$100.0	\$108.6	\$80.3	\$87.0
Non-Operating Revenues:				
Contributions in Aid of Construction	\$7.7	\$8.1	\$5.2	\$11.2
Grants, Rents & Other Revenues ⁽¹⁾	14.9	3.3	3.6	3.6
Investment Income	3.4	2.5	2.0	1.5
Investment FMV Adjustment	0.9	(1.5)	(1.2)	(1.0)
Property Taxes/Land Levy	3.6	3.7	2.1	1.9
Total Non-Operating Revenue	\$30.5	\$16.1	\$11.7	\$17.2
Total Revenues	\$130.5	\$124.7	\$92.0	\$104.2
EXPENSES:				
Source of Supply	\$6.4	\$7.8	\$5.1	\$6.2
Water Treatment	7.9	7.7	5.2	5.0
Pumping	8.0	9.0	6.7	5.3
Transmission and Distribution	1.0	0.9	0.6	0.6
Maintenance	16.6	17.6	12.2	13.4
Public Information & Customer Service	3.9	4.4	3.1	3.3
Administration & General	19.5	26.4	17.6	20.8
Depreciation and Amortization	29.1	29.3	20.9	22.6
Total Operating Expenses	\$92.4	\$103.2	\$71.4	\$77.2
Non Operating Expenses:				
Interest Expense	\$20.8	\$16.2	\$13.9	\$10.9
Total Non-Operating Expenses	\$20.8	\$16.2	\$13.9	\$10.9
Total Expenses	\$113.2	\$119.4	\$85.3	\$88.1
Changes in Net Assets	\$17.3	\$5.3	\$6.7	\$16.1
Net Assets, Beginning of Year	\$864.2	\$881.5		
Net Assets, End of Year	\$881.5	\$886.8		

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

(1) In addition to miscellaneous service fees, including encroachments and royalties, other revenues include a \$1.6 million settlement for unwinding two Guaranteed Investment Contracts in FY2013 and in FY2014 include \$0.5 million settlement from Lehman Brothers and a \$0.5 million one-time payment for maintenance of a new facility for G.E.

District Management's Discussion on Financial Operations

Financial planning and conservative strategies initiated by the Board almost 20 years ago have allowed the District to navigate recent financial and economic 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'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 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 and was able to use the allocation to fill the expanded Los Vaqueros Reservoir to over 132,000 acre feet. This period was followed by extremely dry conditions in 2013, resulting with the Governor declaring a drought state of emergency on January 17, 2014. The District's water reserves are currently sufficient to meet customer and operating needs, but it is recognized that cycles of multiple dry years are not uncommon in California. Therefore, the District is asking customers to do what they can to conserve in order to minimize the need to draw from the storage in Los Vaqueros.

The District ended FY2013 with \$8.8 million in positive results as compared to the CIP. The positive results reflect the impact of the area's continued economic recovery on water sales, the receipt of one-time payments, and productivity improvements which allowed expenditures to come in below budget. The year-end results reflect a \$1.1 million improvement from the third-quarter projection of \$7.7 million, with key components including the avoided use of \$0.7 million in unspent operating contingency and the receipt of \$0.6 million of the operations and maintenance fee for the Clayton Regency Pipeline, offset by a \$0.2 million net decrease across all other categories. Total operating revenues came in at 100% of budget and contributed \$1.0 million to the total financial plan benefit. Categories that exceeded budget include Facility Reserve Charges by \$0.5 million, property taxes by \$0.5 million and miscellaneous revenue by \$2.9 million. These benefits were partially offset by \$0.7 million in lower than projected water sales and \$2.2 million in lower interest income due to the low interest rate environment.

Expenditure savings, resulting from the District's efforts to reduce expenses without impacting service levels, contributed \$7.8 million toward the positive results. These reductions included \$3.8 million in operating expenses, \$1.6 million in debt service, \$1.8 million in revenue-funded capital and, \$0.7 million in unspent operating contingency, offset by \$0.1 million due to transfers to the vehicle replacement fund.

FY2014 Year-End Projections

Based on third-quarter results for FY2014, the District anticipated that actual revenues would exceed those projected in the Ten-Year Financial Plan by almost \$4.0 million. Based on the unaudited results for FY2014, the projection has increased to \$8.9 million. This is largely the result of increased water consumption in the first half of the year resulting from dry weather conditions. The positive result seen during the fiscal year offset any financial impact from reduced water sales resulting from drought-related conservation in response to the District's 15% Voluntary Drought Management Program. In fact, although the District's treated water customers met the challenge and achieved a 15% reduction during the portion of the fiscal year that the program was in effect, actual water sales exceeded the District's conservative budget projections by almost \$4.0 million. Interest income was slightly below the budgeted target for the year due to continued low interest rates. In addition, revenues from connection charges due to growth in the housing market and the receipt of one-time settlement payments added to the positive results. Drought impacts also postponed further filling of the Los Vaqueros Reservoir in FY2014, and the

projected operation costs for related water purchases and pumping have been reflected in the budgets for FY2015 and FY2016. Further augmentation to the financial plan benefit will be realized from revenue-funded capital savings as well as the achievement of further operational efficiencies. 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.

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, 2014 to 2018, based on the 2015 CIP. The financial forecast represents the District's estimate of projected financial results based on the assumptions set forth under the caption "Ten-Year Capital Improvement Program and Financial Plan." and in the footnotes to the chart set forth below. The information presented for FY2014 reflects unaudited results. Included in this forecast are the anticipated effects of the District's 15% Voluntary Drought Management Program in FY2015 and FY2016. 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⁾

	2014	2015	2016	2017	2018
OPERATING REVENUES:					
Untreated Water Sales	\$40.7	\$34.9	\$37.8	\$46.7	\$49.6
Treated Water Sales	69.7	69.2	73.9	81.9	86.0
Reimbursement of Operating Expenses	4.5	6.0	6.6	7.0	7.2
Other Revenues	0.1	0.1	0.1	0.2	0.2
Total Operating Revenues	\$115.0	\$110.2	\$118.4	\$135.8	\$143.0
NON-OPERATING REVENUES:					
Contributions in Aid of Construction	\$12.0	\$8.4	\$9.8	\$12.8	\$13.6
Grants, Rents & Other Revenues ⁽²⁾	7.0	10.7	2.3	1.2	1.3
Interest Income	2.4	2.6	3.4	3.8	3.5
Property Taxes / Land Levy Taxes ⁽³⁾	N/A	N/A	N/A	N/A	N/A
Total Non-Operating Revenues	\$21.4	\$21.7	\$15.5	\$17.8	\$18.4
Gross Revenues	\$136.4	\$131.9	\$133.9	\$153.6	\$161.4
OPERATING & MAINTENANCE EXPENSES:					
Operations (before depreciation and debt service) ⁽⁴⁾	\$75.1	\$78.6	\$84.9	\$96.1	\$101.3
Less: Expenses Paid with Property Taxes ⁽³⁾	-2.3	-2.3	-3.0	-3.6	-3.6
Total Expenses	\$72.8	\$76.3	\$81.9	\$92.5	\$97.7
Net Revenues Available for Debt Service	\$63.5	\$55.6	\$52.0	\$61.1	\$63.7
Total Senior Debt Service	32.0	32.7	37.5	43.1	43.0
Debt Service Coverage Ratio – Senior Debt Only	1.98x	1.70x	1.39x	1.42x	1.48x
Notes and Other Mezzanine Debt Service ⁽⁵⁾	3.1	3.8	3.7	3.7	3.7
Total Senior/Mezzanine Debt Service ⁽⁵⁾	35.1	36.5	41.2	46.8	46.7
Annual Mezzanine Debt Service Coverage Ratio ⁽⁵⁾	1.81x	1.52x	1.26x	1.31x	1.36x
<i>UNITS OF WATER SOLD (thousand acre-feet)⁽⁶⁾</i>	<i>97.1</i>	<i>87.0</i>	<i>90.5</i>	<i>100.4</i>	<i>102.4</i>

(1) Projections for FY2014 are based on actual results through March 31, 2014; FY2015-FY2018 projections are based on the 2015 CIP and reflect projected rate increases, FY2015-2016 also reflect the anticipated impacts of the District's 15% Voluntary Drought Management Program. See table entitled "HISTORICAL AND PROJECTED RATE INCREASES" under the caption "– Ten-Year Capital Improvement Program and Financial Plan" above.

(2) Contains \$2.3 million and \$6.2 million in grant funding for Canal Replacement Project in FY2014 and FY2015 respectively.

(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) FY2015-2018 operating expenses reflect the 2015 CIP projections and inflation assumptions of 3.0% in FY14 and FY15, and 4.0% annually thereafter. Refilling of the Los Vaqueros Reservoir is anticipated to be completed in FY2016; 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) Reflects actual interest payments on the Notes until their respective stated maturity dates and thereafter assumes that the principal amount of Notes will be refunded by Additional Notes bearing interest at the same rates. See "PLAN OF REFUNDING" and APPENDIX E – "SUMMARY OF DEBT SERVICE OBLIGATIONS."

(6) The projection for units of water sold, including the FY2014 estimate, reflects projections from the 2015 CIP. (These figures do not include consumption wheeled on behalf of the City of Brentwood, estimated at 7,300 acre feet in FY2014.)

As described under the caption “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES C NOTES – Rate Covenant; Debt Coverage” in this Official Statement, the Trust Agreement requires the District to maintain an Annual Mezzanine Debt Service Coverage Ratio (which is defined as the ratio of Net Revenues to Annual Debt Service, including debt service on Senior Debt and the Notes) of 1.25:1.0 calculated at the end of each Fiscal Year. Consistent with the Trust Agreement, for purposes of the table above, only interest payments on the Notes and not the actual principal maturities of the Notes are included in the calculation of Annual Debt Service for purposes of calculating the Annual Mezzanine Debt Service Coverage Ratio, based on the assumption that the principal of the Notes will constitute Excluded Principal Payments because such principal will be paid from the proceeds of additional Notes or Senior Debt rather than from Net Revenues during the forecast period.

As described under the caption “PLAN OF REFUNDING,” the District plans to refinance the Notes at maturity rather than pay the principal of the Notes with Available Mezzanine Revenues. In order to issue additional Notes, including refunding Notes, the District must satisfy the provisions of the Trust Agreement, including Mezzanine Debt Service Coverage Ratio at least equal to 1.25:1.0. The District plans to designate the principal payments on the Notes as Excluded Principal Payments under the Trust Agreement because the District intends to pay the Notes at maturity with moneys which are not Revenues. Accordingly, Assumed Debt Service rather than the actual principal payments on the Notes will be included when calculating Maximum Annual Debt Service for purposes of the Mezzanine Debt Service Coverage Ratio. Assumed Debt Service is calculated by amortizing Excluded Principal Payments over a period specified by the District of not more than 30 years on a substantially level debt basis, calculated based on an interest rate equal to the rate at which the District could borrow for such period, as certified by a financial advisor or investment banker. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES C NOTES – Limitations on the Issuance of Obligations Payable from Available Mezzanine Revenues.” Based upon current water service rates, anticipated water sales and other assumptions included in the table above, the District may be required to withdraw funds from the Rate Stabilization Fund for inclusion in Revenues in order to achieve the Mezzanine Debt Service Coverage Ratio required to issue refunding Notes in years in which the Notes mature. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES C NOTES – Rate Stabilization Fund.”

The projected Mezzanine Debt Service in the table on the previous page does not adjust for the use of capitalized interest, original issue premium, or other mechanisms as part of future debt issuances that can assist the District in satisfying its future Mezzanine Debt Service budgetary targets. The District has several budgetary and debt service alternatives, including but not limited to mid-year budgetary adjustments and the use of reserves, to mitigate refinancing risks associated with the Notes and to maintain the Mezzanine Debt Service Coverage Ratio at the level required by the Trust Agreement.

CONSTITUTIONAL LIMITATIONS ON TAXES AND APPROPRIATIONS

Article XIII A of the California Constitution

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.

Article XIII B of the California Constitution

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 rates and charges imposed by the District do not exceed the cost reasonably borne in providing the related services and thus are not subject to the limitations of Article XIII B under this provision.

Articles XIII C and XIII D of the California Constitution

General. An initiative measure entitled the "Right to Vote on Taxes Act" ("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 XIIC 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 XIIC 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 Noteholders. Remedies available to Noteholders 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. 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.

Proposition 26

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 ("S&P") and Fitch Ratings ("Fitch") have assigned the Series C Notes 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 C Notes. 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 either to notify the owners of any revision or withdrawal or 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 C Notes.

INDEPENDENT ACCOUNTANTS

The District's audited financial statement for the fiscal year ended June 30, 2013 (the "Audited Financial Statement"), is included as Appendix A. The Fiscal Year 2013 Audited Financial Statement was reported on by Maze and Associates, 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, 2013, 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 C Notes 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. In the further opinion of Bond Counsel, interest on the Series C Notes 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 federal corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix D hereto.

To the extent the issue price of any maturity of the Series C Notes is less than the amount to be paid at maturity of such Series C Notes (excluding amounts stated to be interest and payable at least annually over the term of such Series C Notes), 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 C Notes 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 C Notes is the first price at which a substantial amount of such maturity of the Series C Notes 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 C Notes accrues daily over the term to maturity of such Series C Notes 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 C Notes to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Series C Notes. Beneficial Owners of the Series C Notes should consult their own tax advisors with

respect to the tax consequences of ownership of Series C Notes with original issue discount, including the treatment of Beneficial Owners who do not purchase such Series C Notes in the original offering to the public at the first price at which a substantial amount of such Series C Notes is sold to the public.

Series C Notes 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 Notes”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of notes, like the Premium Notes, 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 Note, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Notes should consult their own tax advisors with respect to the proper treatment of amortizable note 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 C Notes. The District has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Series C Notes 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 C Notes being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series C Notes. 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 C Notes may adversely affect the value of, or the tax status of interest on, the Series C Notes. 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 C Notes 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 amounts treated as interest on, the Series C Notes 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 C Notes to be subject, directly or indirectly, in whole or in part, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. For example, Representative Dave Camp, Chair of the House Ways and Means Committee released draft legislation that would subject interest on the Series C Notes to a federal income tax at an effective rate of 10% or more for individuals, trusts, and estates in the highest tax bracket, and the Obama Administration proposed legislation that would limit the exclusion from gross income of interest on the Series C Notes to some extent for high-income individuals. 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 C Notes. Prospective purchasers of the Series C Notes should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond 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 C Notes 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 C Notes ends with the issuance of the Series C Notes, 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 C Notes in the event of an audit examination by the IRS. Under current procedures, parties other than the District and their appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt notes 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 C Notes 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 C Notes, 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 C Notes, 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 C Notes 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 C Notes.

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 2013/2014 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 F — "FORM OF CONTINUING DISCLOSURE AGREEMENT."

The District issued a series of bonds (Water Revenue Refunding Bonds, Series P (the "Series P Bonds")) and the Series B Notes shortly after the end of fiscal year 2010/2011. The District timely filed its Annual Report for fiscal year 2010/2011 in connection with each of the bond issuances prior to June 30, 2011, but the Dissemination Agent did not file the 2010/2011 Annual Report in connection with the Series P Bonds and the Series B Notes at the same time. The District has since caused the audited financial statements to be posted in connection with the Series P Bonds and Series B Notes. In addition, although the District provided notice of the downgrade of the District's Water Revenue Bonds by Fitch Ratings on May 23, 2014, to the Dissemination Agent on June 11, 2014, the Dissemination Agent posted the notice to EMMA on August 4, 2014. The District also provided notices of the defeasance of two series

of bonds to the Dissemination Agent, but the Dissemination Agent did not post the notices to EMMA until 49 and 23 days, respectively, after the defeasances.

The District failed to provide notice of rating upgrades to EMMA following Moody's Investor Services "recalibration" of its rating scale in 2010, and notice of rating downgrades relating to insured bonds on several occasions.

The District has implemented a written policy to ensure timely filing of reports and notices, and to monitor postings by the Dissemination Agent. The District is also reviewing notices of rating changes posted on EMMA for the District's outstanding notes and bonds. The District intends to cause the Dissemination Agent to post notices on EMMA to the extent necessary to reflect the current ratings of such bonds and notes.

UNDERWRITING

Merrill Lynch, Pierce, Fenner & Smith Incorporated, as the Underwriter for the Series C Notes, has agreed to purchase the Series C Notes at a purchase price of \$25,790,071.56 (consisting of the principal amount of the Series C Notes of \$23,790,000, plus an original issue premium of \$2,035,472.40, less an underwriting discount of \$35,400.84. The Purchase Contract for the Series C Notes provides that the Underwriter for the Series C Notes will purchase all of the Series C Notes if any are purchased.

The Underwriter and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage services. The Underwriter and their respective affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the District, for which they received or will receive customary fees and expenses.

The District intends to use a portion of the proceeds from this offering to redeem the Prior Notes. To the extent an Underwriter or an affiliate thereof is an owner of the Prior Notes, such Underwriter or its affiliate, as applicable, would receive a portion of the proceeds from the issuance of the Series C Notes contemplated herein in connection with such Prior Notes being redeemed by the District.

In the ordinary course of their various business activities, the Underwriter and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities, which may include credit default swaps) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the District.

The Underwriter 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.

FINANCIAL ADVISOR

The District has retained Public Financial Management, Inc. as financial advisor with respect to the issuance of the Series C Notes. 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 C Notes 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 D 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 C Notes for the District.

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APPENDIX A

**CONTRA COSTA WATER DISTRICT
AUDITED FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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**CONTRA COSTA WATER DISTRICT
BASIC FINANCIAL STATEMENTS**

FOR THE YEAR ENDED JUNE 30, 2013

**PREPARED BY THE
FINANCE DEPARTMENT**

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**CONTRA COSTA WATER DISTRICT
BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013**

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INDEPENDENT AUDITOR'S OPINION

Board of Directors of the
Contra Costa Water District
Concord, California

Report on Financial Statements

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 (District) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents. The prior year comparative totals have been derived from the District's 2012 financial statements, audited by other auditors, and the auditor's report dated November 16, 2012, in which they expressed an unmodified opinion.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective net position of the business type activities, major fund and the fiduciary funds of the District as of June 30, 2013, and the changes in net position and cash flows where applicable for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Management adopted the provisions of Governmental Accounting Standards Board Statement No. 63-*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which became effective during the year ended June 30, 2013 and required certain title changes to the Statement of Net Position and Statement of Changes in Net Position. See Note 1.P. to the financial statements for relevant disclosures.

The emphasis of this matter does not constitute a modification to our opinion.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements as a whole. The Supplementary Information as listed in the Table of Contents are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 30, 2013, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Maze & Associates

Pleasant Hill, California
August 30, 2013

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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, 2013. The MDA is intended to serve as an introduction to the District's basic financial statements. A comparative analysis of fiscal year 2013 (FY13) to 2012 (FY12) 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. 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, and 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 position; statement of revenues, expenses, and changes in net position; and statement of cash flows. The following is a brief explanation of the use of each of the statements:

The *statement of net position* presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 position* presents information on how the District's net position changed during the most recent fiscal year. All changes in net position 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 revenues 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 FY13 as illustrated in the financial analysis below.

Financial Condition :

Net Position
June 30, 2013 and 2012
(in Millions of Dollars)

	2013	2012	Increase (Decrease)
ASSETS:			
Capital assets	\$1,236.7	\$1,237.9	\$ (1.2)
Cash and investments	230.2	233.0	(2.8)
Other assets	26.9	30.2	(3.3)
Total Assets	1,493.8	1,501.1	(7.3)
LIABILITIES:			
Noncurrent liabilities	489.8	538.0	(48.2)
Current liabilities	117.2	81.6	35.6
Total Liabilities	607.0	619.6	(12.6)
NET POSITION:			
Invested in capital assets (net of related debt)	695.7	706.3	(10.6)
Restricted	75.1	72.5	2.6
Unrestricted	116.0	102.7	13.3
Total Net Position	\$ 886.8	\$ 881.5	\$ 5.3

Comparison of FY13 to FY12: Total assets decreased by \$7.3 million in FY13 while total liabilities decreased by \$12.6 million. This resulted in an overall increase of \$5.3 million in net position. Key components in the increase are as follows:

- Capital assets decreased \$1.2 million in FY13. The total of \$28.2 million in capital projects were completed for needed upgrades, replacements and installation of new District facilities and equipment (including generators, reservoirs, transmission and distribution facilities). This was offset by annual depreciation totaling \$29.4 million. Please refer to the Capital Assets section of the MDA for further details.
- Cash and investments reflect a net decrease of \$2.8 million, which is the net effect of operations and annual debt service payments.
- Other assets reflect a decrease of \$3.3 million, related to activity of notes receivable, OPEB assets, and unamortized bond issuance costs.
- Total liabilities decreased by \$12.6 million in FY13. Noncurrent liabilities decreased by \$48.2 million largely the result of the refinancing of approximately \$27.8 million in Series A Water Revenue Notes scheduled to mature on October 1, 2012 with Extendable Municipal Commercial Paper (EMCP). A total of \$50.0 million in EMCP was issued, with the remaining \$20.0 million targeted in support of capital projects. In addition, the District also reduced its current and non-current liabilities with the issuance of \$87.1 million in Series Q Water Revenue Refunding Bonds in September 2012. These bonds refinanced existing debt (Series K and L) and lowered the District's debt service obligations.
- The issuance of \$50.0 million in EMCP contributed to the \$35.6 million increase in current liabilities. This was offset by the reduction in water revenue notes and a \$10.9 million reduction in accounts payable, as the FY12 balance reflected significant efforts related to the expansion of the Los Vaqueros Reservoir.

Results of Operations

Revenues, Expenses, and Changes in Net Position June 30, 2013 and 2012 (In Millions of Dollars)

	2013	2012	Increase (Decrease)
OPERATING REVENUES:			
Untreated water sales	\$ 36.4	\$ 33.4	\$ 3.0
Treated water sales	67.6	62.0	5.6
Other operating revenues	4.6	4.6	-
Total Operating Revenues	108.6	100.0	8.6
OPERATING EXPENSES:			
Operations	42.9	39.9	3.0
Public information and customer service	4.4	3.9	0.5
Administrative and general	26.4	19.5	6.9
Depreciation and amortization	29.4	29.1	0.3
Total Operating Expenses	103.1	92.4	10.7
Net Operating Income	5.5	7.6	(2.1)
Non Operating Revenues (Expenses)	(9.0)	(4.4)	(4.6)
Net Income Before Contributions	(3.5)	3.2	(6.7)
Capital Contributions	8.8	14.1	(5.3)
CHANGES IN NET POSITION	5.3	17.3	(12.0)
NET POSITION BEGINNING OF YEAR	881.5	864.2	17.3
NET POSITION END OF YEAR	\$ 886.8	\$ 881.5	\$ 5.3

Comparison of FY13 to FY12: The District ended the year with total revenues exceeding total expenses by \$5.5 million. Total FY13 operating revenues of \$108.6 million were \$8.6 million higher than FY12, while total operating expenses of \$103.1 million reflected an increase of \$10.7 million. Non-operating expenses increased by \$4.6 million to \$9.0 million, while capital contributions of \$8.8 million represent a \$5.3 million decrease from FY12. Major contributors to this year's results are as follows:

- Operating revenues increased by \$8.6 million in FY13, due primarily to \$3.0 million of increased consumption from municipal & industrial untreated water customers, in addition to a \$5.6 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 FY13 increased by \$10.7 million over FY12 due primarily to an ad hoc payment of \$4.5 million to the District's Retirement Plan to increase the funded liability to approximately 80%. Higher water and pumping (energy) costs associated with the continued filling of the expanded Los Vaqueros Reservoir accounted for another \$3.2 million of the increase. The remainder of the increase reflects a \$3.0 million increase related to labor (benefit) costs and a combination of cost increases across all categories.
- Capital contributions of \$8.8 million reflect a decrease of \$5.3 million in FY13 compared to FY12, reflecting \$5.7 million in lower grant funding partially offset by a \$0.4 million increase in contributions in aid of construction.
- The net result of the \$9.0 million in non-operating expenses and \$8.8 million in capital contributions lowered the net position by \$0.2 million.

Capital Assets:

The District's investment in capital assets as of June 30, 2013, 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:

	2013	2012	Increase (Decrease)
Utility plant and canal system (net of depreciation)	\$ 929.4	\$ 851.8	\$ 77.6
Land and rights of way	257.5	255.9	1.6
Construction in progress	49.8	130.2	(80.4)
Total	\$1,236.7	\$1,237.9	\$ 1.2

The total increase in the District's investment in capital assets for FY13 was \$1.2 million (net of annual depreciation). Major contributors to the increase in capital assets are as follows:

- Utility plant and canal system increased by \$77.6 million, net of depreciation. Completed projects for the year included the Los Vaqueros Reservoir Expansion, Contra Costa Canal Fish Screens, Comistas/Cowell Pump Station, Brentwood Water Treatment Plant Ozone System Improvement, SCADA Upgrades, Water Quality Improvement Rebate Programs and various applicant-funded projects, such as the Pleasant Hill Transit Village. Offsetting depreciation totaled \$29.4 million.
- Land and rights of way increased by \$1.6 million in FY13 due to the final land purchase for construction/mitigation efforts related to the Los Vaqueros Reservoir Expansion Project.
- Construction in progress decreased by \$80.4 million in FY13 due primarily to the completion of the Los Vaqueros Reservoir Expansion Project.

Readers desiring more detailed information on the District's capital assets should refer to Note 2 of the accompanying financial statements.

Debt Administration:

At June 30, 2013, the District had \$529.9 million total debt outstanding. In August 2012, the District issued \$87.1 million in long-term Water Revenue Refunding Bonds (Series Q) to refund previously issued Series K and Series L Water Revenue Bonds at lower interest rates. At the same time, \$22.9 million in 2012 Series A Bonds for the Authority were issued to refinance existing debt for the Authority. As a result, the District recognized \$23.1 million in debt service savings, with the majority of the saving to be reflected in FY13-FY15. In September 2012, the District issued \$50.0 million in Extendable Municipal Commercial Paper (EMCP) to retire approximately \$27.8 million in Water Revenue Notes (Series A) which were scheduled to mature in October 2012 and to provide \$20.0 million in financing for the Los Vaqueros Expansion and Shortcut Pipeline construction projects.

Total debt outstanding consists of \$381.8 million of Water Revenue Bonds and \$135.0 million in Water Revenue Notes (net of unamortized discount, premium, and cost of issuance), as well as \$13.1 million in State Revolving Fund loans. The District's annual debt service for the upcoming fiscal year is \$69.0 million, inclusive of the State Revolving Fund loans and Water Revenue Notes. The issuance of \$91.7 million in Water Revenue Refunding Bonds (Series R) in early FY14 will refund the previously issued Series M Water Revenue Bonds. The Series R issuance is expected to generate approximately \$8.8 million in additional savings. Readers desiring more detailed information on the District's long-term debt should refer to Note 11 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 Director of Finance, P.O. Box H2O, Concord, CA 94524.

CONTRA COSTA WATER DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS - ENTERPRISE
AS OF JUNE 30, 2013
WITH SUMMARIZED TOTALS AS OF JUNE 30, 2012

ASSETS	Water District Fund	Water Authority Fund	Totals	
			2013	2012
Noncurrent Assets:				
Capital Assets (Note 2)				
Non-depreciable	\$304,022,972	\$3,272,324	\$307,295,296	\$386,135,287
Depreciable, net	901,636,210	27,772,077	929,408,287	851,749,948
Total Capital Assets	1,205,659,182	31,044,401	1,236,703,583	1,237,885,235
Notes receivable	254,509		254,509	502,196
Net other post-employment benefits assets (Note 7)	3,241,723		3,241,723	2,461,828
Unamortized bond issuance costs	2,188,308	96,303	2,284,611	2,401,116
Restricted Assets				
Cash and cash equivalents (Note 3)	30,662,612		30,662,612	27,371,021
Investments (Note 3)	106,613,061	2,437,000	109,050,061	57,566,440
Total Restricted Assets	137,275,673	2,437,000	139,712,673	84,937,461
Total Noncurrent Assets	1,348,619,395	33,577,704	1,382,197,099	1,328,187,836
Current Assets:				
Cash and cash equivalents (Note 3)	41,293,072		41,293,072	50,184,938
Investments (Note 3)	49,149,740		49,149,740	97,828,964
Receivables (Note II)	19,422,550		19,422,550	23,302,446
Other current assets	1,758,079	644	1,758,723	1,572,983
Interfund balances (Note II)	2,778,060	(2,778,060)		
Total Current Assets	114,401,501	(2,777,416)	111,624,085	172,889,331
Total Assets	1,463,020,896	30,800,288	1,493,821,184	1,501,077,167

(Continued)

See accompanying notes to financial statements

CONTRA COSTA WATER DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS - ENTERPRISE
AS OF JUNE 30, 2013
WITH SUMMARIZED TOTALS AS OF JUNE 30, 2012

LIABILITIES	Water District Fund	Water Authority Fund	Totals	
			2013	2012
Noncurrent Liabilities:				
Advances for construction (Note 4A)	6,026,428		6,026,428	2,670,090
Unearned revenue and other (Note 4B)	502,063		502,063	742,794
Water revenue notes (Note 5)	104,325,693		104,325,693	134,950,693
Water revenue bonds and loans (Note 5)	<u>355,838,390</u>	<u>23,065,875</u>	<u>378,904,265</u>	<u>399,574,700</u>
Total Noncurrent Liabilities	<u>466,692,574</u>	<u>23,065,875</u>	<u>489,758,449</u>	<u>537,938,277</u>
Current Liabilities:				
Current maturities of water revenue notes (Note 5)	30,625,000		30,625,000	30,713,864
Current maturities of water revenue bonds and loans (Note 5)	16,008,380		16,008,380	18,718,047
Accounts payable	9,464,625	57,775	9,522,400	20,457,381
Accrued payroll and related expenses	5,269,604		5,269,604	5,216,778
Interest payable	5,694,589	111,600	5,806,189	6,505,961
Commercial paper (Note 5E)	<u>50,000,000</u>		<u>50,000,000</u>	
Total Current Liabilities	<u>117,062,198</u>	<u>169,375</u>	<u>117,231,573</u>	<u>81,612,031</u>
Total Liabilities	<u>583,754,772</u>	<u>23,235,250</u>	<u>606,990,022</u>	<u>619,550,308</u>
NET POSITION (Note 1D)				
Net investment in capital assets	687,646,633	8,074,829	695,721,462	706,319,720
Restricted for capital assets	75,093,061		75,093,061	72,550,316
Unrestricted Net Position	<u>116,526,430</u>	<u>(509,791)</u>	<u>116,016,639</u>	<u>102,656,823</u>
Total Net Position	<u>\$879,266,124</u>	<u>\$7,565,038</u>	<u>\$886,831,162</u>	<u>\$881,526,859</u>

See accompanying notes to financial statements

CONTRA COSTA WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS - ENTERPRISE
FOR THE YEAR ENDED JUNE 30, 2013
WITH SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2012

	Water District Fund	Water Authority Fund	Totals	
			2013	2012
OPERATING REVENUES:				
Untreated water sales	\$36,372,920		\$36,372,920	\$33,385,869
Treated water sales	67,592,907		67,592,907	61,983,614
Reimbursement of operating expenses	4,493,863		4,493,863	4,484,799
Miscellaneous service charges	166,239		166,239	136,926
Total Operating Revenues	108,625,929		108,625,929	99,991,208
OPERATING EXPENSES:				
Source of supply	7,797,825		7,797,825	6,442,749
Water treatment	7,673,912		7,673,912	7,855,828
Pumping	9,030,345		9,030,345	7,980,871
Transmission and distribution	874,249		874,249	1,026,636
Maintenance	17,569,129		17,569,129	16,643,200
Public information and customer service	4,409,929		4,409,929	3,926,353
Administrative and general	26,408,870		26,408,870	19,476,552
Depreciation (Note 2)	28,147,163	\$1,237,514	29,384,677	29,091,610
Total Operating Expenses	101,911,422	1,237,514	103,148,936	92,443,799
NET OPERATING INCOME (LOSS)	6,714,507	(1,237,514)	5,476,993	7,547,409
NONOPERATING REVENUE (EXPENSE):				
Property taxes	3,654,152		3,654,152	3,640,883
Investment earnings	2,489,181	(1,959)	2,487,222	3,442,164
Net (decrease) in fair value of investments	(1,522,762)		(1,522,762)	924,096
Gain on sale of investment				51,523
Interest expense	(16,016,653)	(169,639)	(16,186,292)	(20,787,205)
Rent and other, net	1,091,205	1,501,501	2,592,706	8,352,371
Nonoperating revenue (expenses), net	(10,304,877)	1,329,903	(8,974,974)	(4,376,168)
NET INCOME BEFORE CONTRIBUTIONS	(3,590,370)	92,389	(3,497,981)	3,171,241
CONTRIBUTIONS:				
Capital grants	718,422		718,422	6,490,456
Contributions in aid of construction	8,083,862		8,083,862	7,664,961
Total capital contributions	8,802,284		8,802,284	14,155,417
CHANGES IN NET POSITION	5,211,914	92,389	5,304,303	17,326,658
NET POSITION, BEGINNING OF YEAR	874,054,210	7,472,649	881,526,859	864,200,201
NET POSITION, END OF YEAR	\$879,266,124	\$7,565,038	\$886,831,162	\$881,526,859

See accompanying notes to financial statements

CONTRA COSTA WATER DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS - ENTERPRISE
FOR THE YEAR ENDED JUNE 30, 2013
WITH SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2012

	Water District Fund	Water Authority Fund	Totals	
			2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$107,606,798		\$107,606,798	\$97,045,889
Payments to suppliers	(40,697,266)		(40,697,266)	(25,405,562)
Payments to employees	(43,117,319)		(43,117,319)	(38,184,094)
Internal activity - payments to other funds	(1,502,027)	\$1,502,027		
Other receipts	5,887,808	1,505,762	7,393,570	7,672,668
Cash Flows from Operating Activities	28,177,994	3,007,789	31,185,783	41,128,901
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	(42,647,757)	1,700,251	(40,947,506)	(39,150,000)
Proceeds from investment maturities and redemptions	47,071,494		47,071,494	31,715,000
Investment income	4,695,982	(1,959)	4,694,023	4,816,836
Net Cash Flows From Investing Activities	9,119,719	1,698,292	10,818,011	(2,618,164)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Property taxes received and other	3,654,152		3,654,152	3,640,883
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Additions to utility plant and equipment	(28,075,249)	(120,372)	(28,195,621)	(83,881,257)
Principal defeased in current year	(120,377,204)		(120,377,204)	(315,306)
Principal payments on long-term debt and contracts payable	(19,770,388)	(27,570,000)	(47,340,388)	(52,133,076)
Net proceeds from debt issues	130,266,036	22,940,000	153,206,036	67,210,424
Contributions in aid of construction	11,440,200		11,440,200	5,889,355
Interest paid on long-term debt	(15,523,704)	37,184	(15,486,520)	(25,313,741)
Net proceeds from capital grants	(850,572)		(850,572)	7,148,450
Cash Flows from Capital and Related Financing Activities	(42,890,881)	(4,713,188)	(47,604,069)	(81,395,151)
NET CASH FLOWS	(5,593,168)	(7,107)	(5,600,275)	(39,243,531)
Cash and cash equivalents at beginning of year	77,548,852	7,107	77,555,959	116,799,490
Cash and cash equivalents at end of year	\$71,955,684		\$71,955,684	\$77,555,959

(Continued)

See accompanying notes to financial statements

CONTRA COSTA WATER DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS - ENTERPRISE
FOR THE YEAR ENDED JUNE 30, 2013
WITH SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2012

	Water District Fund	Water Authority Fund	Totals	
			2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES				
Operating Income	\$5,213,006	\$263,987	\$5,476,993	\$7,547,409
Adjustments to reconcile operating income to cash flows from operating activities:				
Depreciation	29,384,677		29,384,677	29,091,610
Rent and other, net	1,355,192	1,237,514	2,592,706	7,393,952
Effect of changes in:				
Accounts receivable	3,640,445	526	3,640,971	(1,368,962)
Notes receivable	247,687		247,687	233,858
Other assets	185,740		185,740	198,164
Accounts payable and accrued expenses	(10,939,930)	57,775	(10,882,155)	(2,473,957)
Due to/due from	(1,447,987)	1,447,987		
Unearned revenue and other	(240,731)		(240,731)	(233,857)
Prepaid other post-employment benefits	779,895		779,895	740,684
Cash Flows from Operating Activities	<u>\$28,177,994</u>	<u>\$3,007,789</u>	<u>\$31,185,783</u>	<u>\$41,128,901</u>
SCHEDULE OF NON CASH ACTIVITIES				
Change in Fair Market Value			\$1,415,839	\$975,619
Change in receivables related to capital grants			4,669,702	340,707
Change in accounts payable related to acquisition of capital assets			(6,060,672)	4,564,540
Amortization of deferred bond issuance costs			116,505	650,312
Amortization of bond related discount and deferred loss			102,541	2,630,425
Capitalized interest related to construction in progress			2,635,250	2,598,649

See accompanying notes to financial statements

CONTRA COSTA WATER DISTRICT
 STATEMENTS OF FIDUCIARY NET POSITION
 FIDUCIARY FUNDS
 RETIREMENT PLAN AND OTHER POST-EMPLOYMENT BENEFIT TRUST FUNDS
 JUNE 30, 2013 AND 2012

ASSETS	2013	2012
Cash and cash equivalents (Note 3)	\$7,801,798	\$1,177,833
Investments, at fair value:		
U.S. treasury securities	5,240,414	13,543,521
Federal agency securities	2,038,228	3,073,752
Mortgage/Asset - Backed Securities	12,019,472	13,411,531
Pooled funds	7,299,014	
Real estate investment fund	5,249,884	7,228,028
Corporate bonds	13,326,883	11,889,081
Foreign bonds	386,497	
Equity securities	10,355,901	4,104,013
Foreign securities	254,268	
Equity mutual funds	86,212,076	71,612,038
Municipal bonds	239,700	284,240
Total investments	142,622,337	125,146,204
Total Cash and Investments	150,424,135	126,324,037
Receivables:		
Accrued income	218,346	295,585
Contribution due from District	218,087	1,160,638
Contribution due from participants	66,629	67,855
Total receivables	503,062	1,524,078
Total assets	150,927,197	127,848,115
LIABILITIES		
Pending trades payable	195,049	
NET POSITION		
Held in trust for pension benefits	130,886,084	112,760,420
Held in trust for other post-employment benefits	19,846,064	15,087,695
Total Net Position	\$150,732,148	\$127,848,115

See accompanying notes to basic financial statements

CONTRA COSTA WATER DISTRICT
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
RETIREMENT PLAN AND OTHER POST-EMPLOYMENT BENEFIT TRUST FUNDS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
ADDITIONS		
Contributions:		
District	\$13,596,113	\$6,865,743
Paid by the District on behalf of employees	594,037	600,909
Paid by employees	2,736,337	2,342,735
Total contributions	16,926,487	9,809,387
Investment income:		
Net (depreciation) appreciation in fair value of investments	11,872,527	(787,871)
Interest, dividends and other	3,380,348	3,094,179
Less: investment expenses	(138,805)	(118,967)
Total net investment income	15,114,070	2,187,341
Total additions	32,040,557	11,996,728
DEDUCTIONS		
Distributions paid to participants	9,156,524	8,461,749
Total deductions	9,156,524	8,461,749
Change in net position	22,884,033	3,534,979
NET POSITION		
Beginning of year	127,848,115	124,313,136
End of year	\$150,732,148	\$127,848,115

See accompanying notes to basic financial statements

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**CONTRA COSTA WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2013**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General

The District was formed under the authority of the County Water District Law, constituting Division 12 of the State Water Code (the County Water District Law) and is governed by an elected five-member Board of Directors. 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 137,000 acres in the central and northeastern portions of Contra Costa County.

B. Financial Reporting Entity

The accompanying basic financial statements of the District include the financial activities of the Authority, a component unit of the District (see Note 8), because 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 basic financial statements do not include the Contra Costa Water District Retirement Plan (the Plan) or Contra Costa Water District Other Post-Employment Benefits Trust (the Trust), which covers substantially all of the District's employees. Summarized financial information related to the Plan and the Trust are disclosed in Note 6 and Note 7, respectively.

C. 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 Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America.

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 position, 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 – is a joint powers authority created pursuant to the Joint Exercise of Powers Agreement, dated June 6, 1989 (the Agreement), between the District and the Diablo Water District (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.

**CONTRA COSTA WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2013**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The District reports the Retirement Plan Trust Fund and Other Post-Employment Benefits Trust Fund, 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, is a single-employer defined benefit retirement plan in which all permanent and full-time employees and members of the District’s Board of Directors are eligible to participate.

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

D. Basis of Accounting

The 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, including 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 position may be available to finance program expenditures. The District’s policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

Certain indirect costs are included in program expenses reported for individual functions and activities.

Net Position is the excess of all the District’s assets and deferred outflows over all its liabilities and deferred inflows, regardless of fund. Net Position is divided into three captions. These captions apply only to Net Position and are described below:

Net Investment in Capital Assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and deferred outflows of resources; reduced by the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets. This net position is considered non-expendable.

Restricted – This component of net position consists of constraints placed on net position used through external constraints imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulators of other governments. It also pertains to constraints imposed by law or constitutional provisions or enabling legislation.

Unrestricted – This component of net position consists of net position that does not meet the definition of “restricted” or “investment in capital assets”. Amounts included as unrestricted net position are available for designation for specific purposes as established by the District’s Board of Directors.

CONTRA COSTA WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Statement of Revenues, Expenses, and Changes in Net Position – The statement of revenues, expenses and changes in net position is the operating statement for proprietary funds. Revenues are reported by major source. These statements distinguish between operating and non-operating revenues and expenses and present a separate subtotal for operating revenues, operating expenses, and operating income.

E. Measurement Focus

Enterprise 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 activity are included on their balance sheets. Enterprise fund type operating statements present increases (revenues) and decreases (expenses) in total net position.

F. Classification of Revenues

Operating revenues consist of sales of water, reimbursements of operating expenses and service charges. 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.

G. 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.

H. Investments

Investments are stated at fair value. Included in investment income (loss) is the net change in the fair value of investments which consists of the realized gains or losses and the unrealized appreciation (depreciation) of those investments. Measurement of the fair value of investments is based upon quoted market prices.

**CONTRA COSTA WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2013**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. 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 balance sheet date (June 30) and calculating the amount of service provided prior to June 30. This calculated amount is included in accounts receivable.

Receivables at June 30 are comprised of the following:

	2013
Customer accounts	\$17,257,836
Grants receivable	122,171
Accrued interest	858,000
Current portion of notes receivable	247,554
Leases and loans	53,029
Miscellaneous	883,960
Total Receivables	\$19,422,550

J. 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, 2013, the Water Authority Fund owed the Water District Fund \$2,778,060 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.

K. 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. 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 District's 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's Board of Directors for review.

CONTRA COSTA WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Prior to June 30 the proposed two-year budget is submitted to the District's Board of Directors 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's Board of Directors. Prior to July 1 of the second year of a two-year budget, that year's budget is reviewed in detail by the District's Board of Directors with proposed changes being submitted for approval by Board resolution.

L. 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.

M. Debt Discount and Issuance Costs

Debt discount and premium costs are capitalized as an offset to long-term debt and amortized using the effective interest method over the life of the related debt. Issuance costs for the District's tax-exempt commercial paper short-term borrowings are expensed as incurred.

N. Compensated Absences

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

O. 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.

P. New Governmental Accounting Standards Board Statement Pronouncements

During fiscal year 2013 the District implemented Government Accounting Standards Board 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.

Q. Reclassification

For the year ended June 30, 2013, 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 2013 presentation.

**CONTRA COSTA WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2013**

NOTE 2 – CAPITAL ASSETS

A. Summary

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 at least three years. The cost of additions to utility plant and major replacements of property are capitalized. Capitalized costs include material, direct labor, transportation and such indirect items as engineering, supervision, employee benefits and interest on net borrowed funds related to plant under construction. Contributed property is recorded at estimated fair market value at the date of donation. Payments received for connection fees are recorded as contributions in aid of construction. Repairs, maintenance and minor replacements of property are expensed.

The purpose of depreciation is to spread the cost of capital assets equitably among all customers over the life of these assets, so that each customer's bill includes a pro rata share of the cost of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of depreciable capital assets.

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 balance sheet 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:

Utility plant:	<u>Years</u>
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:	
Computers/furniture/operating equipment	5
Vehicles	10
Scada equipment/forklifts	10
Building and facilities	42
Canal system	100

**CONTRA COSTA WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2013**

NOTE 2 – CAPITAL ASSETS (Continued)

B. Additions, Retirements, and Transfers

Capital assets balances and activity are summarized below:

	Balance at June 30, 2012	Additions	Retirements	Transfers	Balance at June 30, 2013
Capital assets not being depreciated:					
Land and land rights	\$255,923,874			\$1,619,960	\$257,543,834
Construction in progress	130,211,413	\$28,348,244		(108,808,195)	49,751,462
Total capital assets not being depreciated	386,135,287	28,348,244		(107,188,235)	307,295,296
Capital assets being depreciated:					
Utility plant	1,212,275,770	705,353	(\$1,394,934)	107,181,387	1,318,767,576
Canal system	21,130,040			6,848	21,136,888
Total capital assets being depreciated	1,233,405,810	705,353	(1,394,934)	107,188,235	1,339,904,464
Less accumulated depreciation for:					
Utility plant	(373,369,032)	(29,167,721)	544,362		(401,992,391)
Canal system	(8,286,830)	(216,956)			(8,503,786)
Total accumulated depreciation	(381,655,862)	(29,384,677)	544,362		(410,496,177)
Net capital assets being depreciated	851,749,948	(28,679,324)	(850,572)	107,188,235	929,408,287
Total capital assets, net	\$1,237,885,235	(\$331,080)	(\$850,572)		\$1,236,703,583

C. 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 District's Randall-Bold Water Treatment Plant (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 (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 WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2013**

NOTE 2 – CAPITAL ASSETS (Continued)

D. 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.

E. Construction in Progress

Construction in Progress in fiscal 2012-2013 comprises:

	Expended to Date
District Center Building Improvements	\$664,058
Los Vaqueros Expansion 275TAF Federal/State Studies	29,053,697
Los Vaqueros Expansion 160TAF Expansion	1,688,320
Regional Capacity Study	338,634
Regional Desalination Study	412,455
BCCC IRWMP Update	555,282
Treated Water Service Area Master Plan	390,057
Treated Water Facility Improvement Program	1,989,840
Pipeline Renewal/Replacement Program	1,960,619
Treated Water Reservoir Rehabilitation Program	423,922
Applicant Funded Projects	3,938,118
Shortcut Pipeline Improvements	483,317
LV Pipeline at Balfour Interchange	380,403
Untreated Water Facility Improvement Plan	475,367
Canal Replacement	2,245,000
Untreated Water Facility Improvement Program	1,517,545
Water Treatment Plant Improvement Program	2,133,387
Other Projects and Programs	1,101,441
Total	\$49,751,462

**CONTRA COSTA WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2013**

NOTE 2 – CAPITAL ASSETS (Continued)

At June 30, 2013, the remaining costs for major projects are estimated to be:

	<u>Projected Costs</u>	<u>Estimated Completion Date</u>
District Center Building Improvements	\$8,856,942	2016
Los Vaqueros Expansion 275TAF Federal/State Studies	5,557,303	2016
Los Vaqueros Expansion 160TAF Expansion	1,529,300	2014
Regional Capacity Study	178,427	2014
Regional Desalination Study	52,797	2014
ECCC IRWMP Update	49,941	2014
Treated Water Service Area Master Plan	80,200	2014
Treated Water Facility Improvement Program	779,750	ongoing
Pipeline Renewal/Replacement Program	2,922,551	ongoing
Treated Water Reservoir Rehabilitation Program	2,101,354	ongoing
Applicant Funded Projects	5,287,483	ongoing
Shortcut Pipeline Improvements	12,624,683	2019
LV Pipeline at Balfour Interchange	9,409,597	2015
Untreated Water Facility Improvement Plan	20,000	2014
Canal Replacement	18,362,000	2016
Untreated Water Facility Improvement Program	3,701,257	ongoing
Water Treatment Plant Improvement Program	5,509,485	ongoing
Other Projects and Programs	5,468,216	ongoing
Total	<u>\$82,491,286</u>	

**CONTRA COSTA WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2013**

NOTE 3 - CASH AND INVESTMENTS

A. 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.

B. Classification

The District's cash and investments consist of the following at June 30, 2013:

	Restricted	Unrestricted		Total Unrestricted	Total
		Designated	Undesignated		
Cash and cash equivalents	\$30,662,612	\$15,256,275	\$26,036,797	\$41,293,072	\$71,955,684
Investments	109,050,061	40,417,677	8,732,063	49,149,740	158,199,801
	<u>\$139,712,673</u>	<u>\$55,673,952</u>	<u>\$34,768,860</u>	<u>\$90,442,812</u>	<u>\$230,155,485</u>

**CONTRA COSTA WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2013**

NOTE 3 - CASH AND INVESTMENTS (Continued)

C. 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.

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)
U.S. 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)
Money Market Mutual Funds	Upon Demand	N/A	(A)	(A)
California Asset Management Program	Upon Demand	N/A	(A)	(A)

(A) No Board established limit.

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

D. 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

**CONTRA COSTA WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2013**

NOTE 3 - CASH AND INVESTMENTS (Continued)

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.

E. 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	
U.S. Agency Securities:				
Non-Callable	\$11,825,025		\$20,008,414	\$31,833,439
Callable			5,164,000	5,164,000
Federal Agency Coupon Securities	18,655,482	\$10,455,750	23,794,580	52,905,812
Treasury Notes			4,257,155	4,257,155
Medium Term Notes	6,046,380	21,717,150	33,838,865	61,602,395
Commercial Paper	2,437,000			2,437,000
Total Investments	<u>\$38,963,887</u>	<u>\$32,172,900</u>	<u>\$87,063,014</u>	<u>\$158,199,801</u>
Money Market Funds	\$23,612,754			\$23,612,754
California Local Agency Investment Fund	36,476,757			36,476,757
California Asset Management Program	1,828,940			1,828,940
Overnight Investment	319,794			319,794
Cash in Banks	9,717,439			9,717,439
Total Cash and Cash Equivalents	<u>\$71,955,684</u>			<u>71,955,684</u>
Total Cash and Investments				<u>\$230,155,485</u>

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, 2013, these investments matured in an average of 278 days.

**CONTRA COSTA WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2013**

NOTE 3 - CASH AND INVESTMENTS (Continued)

F. 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, 2013 for each investment type as provided by Moody's Investor Service (Moody's).

Investment Type	Aaa	Aa1	Aa2	Aa3	A1	A2	Not Rated	Total
U.S. Agency Securities:								
Non-Callable	\$31,823,439							\$31,823,439
Callable	5,164,000							5,164,000
Federal Agency Coupon Securities	52,905,512							52,905,512
Treasury Notes	4,257,155							4,257,155
Medium Term Notes	5,113,000	\$7,254,286	\$12,933,087	\$11,019,077	\$10,355,881	\$15,227,064		61,602,395
Commercial Paper					2,437,000			2,437,000
Total Investments	\$99,273,405	\$7,254,286	\$12,933,087	\$11,019,077	\$12,492,881	\$15,227,064		158,199,801
Money Market Funds							\$23,612,754	23,612,754
California Local Agency Investment Fund							36,476,757	36,476,757
California Asset Management Program							1,528,940	1,528,940
Overnight Investment							319,794	319,794
Cash in Banks							9,717,439	9,717,439
Total Cash and Cash Equivalents							71,955,684	71,955,684
Total Cash and Investments							\$71,955,684	\$230,155,485

G. Concentration of Credit Risk

Included in table F above are the following significant investments in the securities of issuers other than U. S. Treasury securities, mutual funds, and external investment pools in any organization that represent in excess of 5% of the District's total investments as follows:

Reporting Unit	Issuer	Investment Type	Reported Amount
District	First American Government Federal National Mortgage Association	Extended Municipal Commercial Paper	\$19,524,541
	Federal Home Loan Mortgage Corporation	U.S. Agency Securities	37,091,275
		U.S. Agency Securities	49,765,301
Authority	BNP Paribas Finance Inc.	Commercial Paper	2,437,000

H. 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 District will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

**CONTRA COSTA WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2013**

NOTE 3 - CASH AND INVESTMENTS (Continued)

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the District's cash on deposit, or first trust deed mortgage notes with a 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's ahead of general creditors of the institution.

Fiduciary Funds -- Investment Policy's and Specific Risks

Retirement Plan

I. Investments Authorized by the Plan's Investment Policy

The Plan's Trust 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 and Poor's Corporation, and asset-backed securities, money market 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.

J. Classification – The Plan's cash and investments consist of the following at June 30, 2013:

Cash and Cash Equivalents	\$6,625,151
Investments	<u>123,952,920</u>
	<u>\$130,578,071</u>

K. 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 Plan generally manages its interest rate risk by holding investments to maturity.

CONTRA COSTA WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2013

NOTE 3 - CASH AND INVESTMENTS (Continued)

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	12 Months or less	13 to 24 Months	25 to 60 Months	More than 60 Months	Total
U.S. Treasury Securities					
Non-Callable		\$1,039,035	\$607,216	\$1,941,604	\$3,587,855
Mortgage/Asset - Backed Securities					
Commercial		103,484	74,246	2,956,614	3,134,344
Government		3,157	39,170	8,842,801	8,885,128
U.S. Agency Securities:					
Non-Callable	\$1,066,317				1,066,317
Corporate Bonds		173,159	2,074,738	6,950,593	9,198,490
Equity Securities				6,093,467	6,093,467
Total Investments	<u>\$1,066,317</u>	<u>\$1,318,835</u>	<u>\$2,795,370</u>	<u>\$26,785,079</u>	<u>31,965,601</u>
Real Estate Investment Fund					5,249,884
Pooled Funds					7,299,014
Cash					39,845
Equity Mutual Funds					79,438,421
Money Market Funds					6,585,306
Total Cash and Investments					<u>\$130,578,071</u>

L. Fair Value of Highly Sensitive to Change 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 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.

**CONTRA COSTA WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2013**

NOTE 3 - CASH AND INVESTMENTS (Continued)

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

Highly Sensitive Investments	Fair Value at Year End
Commercial Mortgage - Backed Securities	\$5,249,884
Government Mortgage - Backed Securities	7,299,014

M. 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, 2013 for each investment type as provided by Moody's.

Investment Rating	U.S. Agency Securities	Asset Backed	Corporate Bonds	Equity Securities	Totals
Aaa	\$1,066,317	\$2,013,162			\$3,079,479
Aa1		103,484	\$107,593		211,077
Aa2					
Aa3			94,199		94,199
A1		140,346	183,520		323,866
A2		68,192	301,395	\$102,444	472,031
A3			1,617,232		1,617,232
Baa1			798,704		798,704
Baa2			3,228,861	107,441	3,336,302
Baa3		81,624	2,389,831	173,690	2,645,145
Bal			413,171		413,171
Sub-total	\$1,066,317	\$2,406,808	\$9,134,506	\$383,575	12,991,206
Exempt from Ratings Disclosure:					
U.S. Treasury Securities					3,587,855
Not Rated:					
Asset-Backed Securities					9,612,664
Pooled Funds					7,299,014
Equity Securities					5,709,892
Corporate Bonds					63,984
Real Estate Investment Funds					5,249,884
Equity Mutual Funds					79,438,421
Money Market Funds					6,585,306
Cash					39,845
Total					\$130,578,071

CONTRA COSTA WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2013

NOTE 3 - CASH AND INVESTMENTS (Continued)

N. Concentration of Credit Risk

Information regarding significant investments at June 30, 2013 (other than U.S. Government or U.S. Government guaranteed obligations) in any organization that represents in excess of 5% of the Plan's net assets as follows:

Vanguard Morgan Growth Funds	\$7,417,478
Vanguard Total Stock Market Index	17,825,269
The OakMark International Fund	6,402,202
WHG Income Opportunity Fund	6,350,792

O. 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, 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

P. Authorized Investment Strategy

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.

**CONTRA COSTA WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2013**

NOTE 3 - CASH AND INVESTMENTS (Continued)

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 are determined by the District's 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.

Q. Classification – The Plan's cash and investments consist of the following at June 30, 2013:

Cash & Cash Equivalents	\$1,176,647
Investments	<u>18,669,417</u>
Total	<u><u>\$19,846,064</u></u>

R. 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	12 Months or less	13 to 24 Months	25 to 60 Months	More than 60 Months	Total
U.S. Agency Securities:					
Non-Callable			\$26,811	\$945,100	\$971,911
U.S. Treasury Securities:					
Non-Callable		\$74,868	649,539	928,152	1,652,559
Municipal Bonds				239,700	239,700
Corporate Bonds	\$128,356	153,796	1,391,901	2,454,340	4,128,393
Foreign Bonds			217,880	168,617	386,497
Equity Securities	4,262,434				4,262,434
Foreign Securities	254,268				254,268
Equity Mutual Funds	6,773,655				6,773,655
Total Investments	<u>\$11,418,713</u>	<u>\$228,664</u>	<u>\$2,286,131</u>	<u>\$4,735,909</u>	<u>\$18,669,417</u>

**CONTRA COSTA WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2013**

NOTE 3 - CASH AND INVESTMENTS (Continued)

S. 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, 2013, for each investment type as provided by Moody's or Standard and Pools.

Investment Rating	U.S. Agency Securities	Corporate Bonds	Foreign Bonds	Municipal Bonds	Totals
Aaa	\$971,911	\$581,465		\$106,917	\$1,660,293
Aa1			\$33,971		33,971
Aa2		129,648	68,767		198,415
Aa3		215,816		44,350	260,166
A1		212,562		88,433	300,995
A2		549,299	73,021		622,320
A3		435,530	177,012		612,542
BAA1		573,683			573,683
BAA2		896,829			896,829
BAA3		108,664			108,664
Sub-total	<u>\$971,911</u>	<u>\$3,703,496</u>	<u>\$352,771</u>	<u>\$239,700</u>	<u>5,267,878</u>
Not Rated:					
Corporate Bonds					424,897
Foreign Bonds					33,726
Foreign Securities					254,268
Equity Securities					4,262,434
Equity Mutual Funds					6,773,655
Exempt from Ratings Disclosure:					
U.S. Treasury Securities					<u>1,652,559</u>
Total					<u>\$18,669,417</u>

T. Concentration Risk

The market value of investments in any one organization exceeding 5% of the Trust's total investments as of June 30, 2013 are as follows:

Issuer	Type	Amount
Federal National Mortgage Association	U.S. Agency Securities	\$1,039,004
U.S. Treasury	U.S. Treasury Securities	1,585,465
Natixis	Equity Mutual Funds	1,007,594
Nuveen Real Estate	Equity Mutual Funds	1,022,412
T. Rowe Price	Equity Mutual Funds	1,712,646
Columbia	Equity Mutual Funds	936,314

**CONTRA COSTA WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2013**

NOTE 3 - CASH AND INVESTMENTS (Continued)

U. 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, 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.

NOTE 4 - NONCURRENT LIABILITIES

A. 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, 2013 were as follows:

Balance, July 1, 2012	\$2,670,090
Deposits received	9,410,573
Earned revenue or deposits refunded	<u>(6,054,235)</u>
Balance, June 30, 2013	<u><u>\$6,026,428</u></u>

B. 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, 2013 were as follows:

Balance, July 1, 2012	\$742,794
Revenue recognized	<u>(240,731)</u>
Balance, June 30, 2013	<u><u>\$502,063</u></u>

**CONTRA COSTA WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2013**

NOTE 5 – LONG-TERM DEBT

A. 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, 2012	Additions	Retirements	Balance June 30, 2013	Amount due within one year
<i>Water Revenue Notes:</i>						
2010 Series A, 1.00 - 4.00%, due 10/01/15	\$127,630,000	\$97,650,000		\$27,830,000	\$69,800,000	\$30,625,000
2011 Series B, 2.00 - 5.00%, due 10/01/15	59,820,000	59,820,000			59,820,000	
Subtotal Water revenue notes		157,450,000		27,830,000	129,620,000	30,625,000
<i>Water Revenue Bonds:</i>						
1992 Series E Refunding Bonds, 3.50 - 6.10%, due 10/01/18	35,340,000	1,965,000		1,965,000		
2001 Series K, 3.5 - 4.5%, due 10/01/31	113,045,000	14,915,000		14,915,000		
2002 Series L Refunding Bonds, 3.00% to 5.00%, due 10/01/32	120,715,000	87,305,000		87,305,000		
2003 Series M Refunding Bonds, 2.00% to 5.00%, due 10/01/26	86,620,000	69,365,000		670,000	68,695,000	700,000
2005 Series N Refunding Bonds, 5.00%, due 10/01/26	114,555,000	114,555,000			114,555,000	
2007 Series O Refunding Bonds 4.25-5.00%, due 10/01/29	57,710,000	60,035,000		3,190,000	56,845,000	3,345,000
2011 Series P Refunding Bonds, 2.00 - 5.00%, due 10/01/25	46,705,000	46,705,000		6,325,000	40,380,000	10,810,000
2002 Series A Refunding Bonds, 2.5 - 5.00%, due 10/01/20	46,660,000	27,570,000		27,570,000		
2012 Series A Refunding Bonds, 1.00 - 3.00%, due 10/01/20	22,940,000		522,940,000		22,940,000	
2012 Series Q Refunding Bonds, 3.00 - 5.00%, due 10/01/32	87,115,000		87,115,000		87,115,000	
Subtotal Water Revenue Bonds:		422,355,000	110,055,000	141,940,000	390,470,000	14,855,000
<i>State Revolving Fund Loans:</i>						
2001 State Revolving Fund Loan 2.5132%, due 07/01/22	15,137,776	8,881,395		749,097	8,132,298	758,041
2004 State Revolving Fund Loan 2.39%, due 07/01/24	2,000,000	1,311,733		95,630	1,216,103	97,898
2005 State Revolving Fund Loan 2.39%, due 07/01/24	5,942,427	4,036,951		280,692	3,756,259	287,441
Subtotal State Revolving Fund Loans:		14,230,079		1,125,389	13,104,690	1,153,380
Total long-term debt		\$94,935,079	110,055,000	170,895,389	533,194,690	46,633,380
Add: Unamortized premium Water Revenue Notes		8,214,557		2,885,864	5,330,693	
Less: Unamortized discount		(18,292,332)	6,848,964	(2,781,323)	(8,662,045)	
Total long-term debt, net		\$84,857,304	\$116,903,964	\$170,997,930	\$529,863,338	\$46,633,380

**CONTRA COSTA WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2013**

NOTE 5 – LONG-TERM DEBT (Continued)

B. 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 Bonds, Series D, and 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 fully refund the Series D bonds, and 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 thereafter. Interest payments are payable semi-annually on April 1 and October 1 thereafter. 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. On August 8, 2012, proceeds from the 2012 Water Revenue Refunding Bonds, Series Q, were used to fully refund the remaining \$14,915,000 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. On August 8, 2012, proceeds from the 2012 Water Revenue Refunding Bonds, Series Q, were used to refund \$83,620,000 of the Series L Bonds, the remaining \$3,385,000 was paid out of available funds to fully refund the Series L.

CONTRA COSTA WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2013

NOTE 5 - LONG TERM DEBT (Continued)

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.

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 thereafter. Interest payments commence on October 1, 2005 and are payable semi-annually on April 1 and October 1 thereafter.

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. On August 8, 2012, proceeds from the 2012 Water Treatment Revenue Refunding Bonds, Series A, were used to refund \$22,940,000 of the 2002 Series A Bonds. The remaining \$4,630,000 was paid out of available funds to fully refund Series A.

**CONTRA COSTA WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2013**

NOTE 5 - LONG TERM DEBT (Continued)

2012 Contra Costa Water Authority, Water Treatment Revenue Refunding Bonds, Series A – On August 8, 2012, the Authority issued 2012 Water Treatment Revenue Refunding Bonds Series A to refund \$22,940,000 of the outstanding 2002 Series A Bonds and for the issuance costs of the 2012 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. The refunding resulted in a net present value savings, called an economic gain, which amounted to \$4,130,450.

2012 Water Revenue Refunding Bonds, Series Q – The District issued Water Revenue Bonds of \$87,115,000 on August 8, 2012, along with other monies held in escrow to provide funds for refunding a portion of the District's outstanding Water Revenue Refunding Bonds, Series K \$14,915,000 and Water Revenue Refunding Bonds, Series L \$83,620,000 and for the issuance costs of the 2012 Series Q Bonds. The Water Revenue Refunding Bonds are special obligation 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. The refunding resulted in a net present value savings, called an economic gain, which amounted to \$23,100,403.

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 then outstanding. 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 FINANCIAL STATEMENTS
For the year ended June 30, 2013

NOTE 5 - LONG TERM DEBT (Continued)

C. 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
2014	\$46,633,380	\$24,365,786
2015	44,207,069	23,332,923
2016	79,681,469	20,815,910
2017	47,666,603	17,755,975
2018	28,962,487	15,491,203
2019 - 2023	141,674,470	50,337,151
2024 - 2028	111,099,212	17,322,540
2029 - 2033	33,270,000	2,247,800
Totals	\$533,194,690	\$171,669,288

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.

D. Prior-Year Defeasances

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, 2013, \$506,700,000 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; \$61,620,000 of 2001 Water Revenue Bonds, Series K refunded in July 2011 and August 2012; and \$83,620,000 of 2002 Water Revenue Refunding Bonds, Series L, refunded in August 2012).

**CONTRA COSTA WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2013**

NOTE 5 - LONG TERM DEBT (Continued)

E. Short-Term Borrowing

On September 5, 2012, the District's Board of Directors authorized the Extendable Municipal Commercial Paper program for \$80 million. The use of the paper will allow the District to finance or refinance costs relating to the Los Vaqueros Reservoir Expansion Project, the Short-Cut Pipeline Projects and other future capital costs of the District, and to refinance maturing Notes and other indebtedness of the District from time to time. The Commercial Paper is secured by a pledge of water revenues on a subordinate basis.

On June 19, 2013, the District declared its intention to refinance up to \$80 million of the short-term debt within the next two years depending on market conditions. This advance authorization is through October 1, 2015. As of June 30, 2013, total Commercial Paper outstanding under this program was \$50 million. The total issued is made up of \$30 million to refinance preexisting debt and \$20 million in support of capital projects. It is the District's practice to roll the Commercial Paper approximately every 90 days.

F. Letter of Credit

On December 20, 2012, the District issued an Irrevocable Standby Letter of Credit with the California Department of Fish and Wildlife (Department) being the beneficiary with a principal sum of \$11,696,594. This credit was established for the benefit of the Department pursuant to the terms of the incidental take permit for the Los Vaqueros Reservoir Expansion Project. This credit is to serve as security device for the performance of mitigation requirements pursuant to the permit.

G. Authorized but Unissued Debt

At June 30, 2013, The District had \$80,000,000 in authorized but unissued Water Revenue Refunding Bonds - Series S.

CONTRA COSTA WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2013

NOTE 6 – RETIREMENT PLAN

A. 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 District's Board of Directors 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 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 of Directors. All recommendations of the Retirement Plan Committee are subject to review and approval by the District's Board of Directors.

A stand-alone financial report of the Retirement Plan is available at the District's office located at 1331 Concord Avenue, Concord, California 94524.

B. Funding Policy

The District's annual covered payroll for employees participating in the Plan for the years ended June 30, 2013 and 2012 was approximately \$27,603,743 and \$27,893,000 respectively. The District's 2013 and 2012 payroll for all employees was approximately \$28,376,268 and \$31,811,700 respectively. 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% as required by the June 30, 2012 (most recent) actuarial report.

**CONTRA COSTA WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2013**

NOTE 6 – RETIREMENT PLAN (Continued)

C. Public Employees' Pension Reform Act (PEPRA)

Assembly Bill 340 (AB 340) created the Public Employees' Pension Reform Act (PEPRA) that implemented new benefit formulas and final compensation periods, as well as new contribution requirements for new employees hired on or after January 1, 2013, who meet the definition of new member under PEPRA.

The table below provides the details of the new provisions.

Benefit Formula	2.0% at Age 62
Final Compensation Period	Average of last 3 years
Employer Contribution Rate as a percentage payroll	50 % of Normal Cost
Member Contribution Rate as a percentage of payroll	50 % of Normal Cost

The employer contribution rate listed above is in effect until June 30, 2013. In accordance with the provisions of AB 340, the member contribution rate is required to be at 50 percent of the expected total normal cost rate for the benefits that will apply to new members on January 1, 2013.

D. Net Pension Obligation

The District's net pension obligation to the Plan was zero at June 30, 2013 and 2012, determined in accordance with GASB Statement No. 27. The Plan's ten year contribution information follows:

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Actual Contribution</u>	<u>Percentage Contributed</u>
2004	\$891,000	\$891,000	100%
2005	1,207,000	1,207,000	100%
2006	1,547,000	1,547,000	100%
2007	2,849,000	2,849,000	100%
2008	1,589,948	1,589,948	100%
2009	3,231,402	3,231,402	100%
2010	2,168,156	2,168,156	100%
2011	2,700,384	2,700,384	100%
2012	3,324,636	3,324,636	100%
2013	3,560,200	8,872,881	249%

**CONTRA COSTA WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2013**

NOTE 6 – RETIREMENT PLAN (Continued)

The Plan's actuarial value and funding progress over the past three years are set forth below at their (most recent) actuarial valuation date of June 30:

In Thousands						
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, 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%)
June 30, 2012	104,867	138,161	(33,294)	75.9%	27,604	(120.61%)

E. 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, 2012
Actuarial cost method	Entry age normal
Amortization method	Level percent open
Remaining amortization period	15 Years
Asset valuation method	Five-year smoothed market value
Actuarial assumptions:	
Investment rate of return*	7.75%
Projected salary increases*	3.00-4.00%
Cost-of-living adjustments	Based on economic trends

*Includes inflation at 4.00%

**CONTRA COSTA WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2013**

NOTE 7 - POST EMPLOYMENT BENEFITS OTHER THAN RETIREMENT

A. Trust Description

The District's employees are eligible for postretirement health care benefits if they directly retire from employment at the District. These benefits are paid through the Contra Costa Water District Other Post-Employment Benefits 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 Board of Directors).

As of June 30, 2013 and 2012, there were 206 and 172 retirees or their beneficiaries, respectively, 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 \$2,432,933 in 2013 and \$2,229,779 in 2012.

During fiscal year 2008, the District early implemented the provisions of the Government Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes uniform financial reporting standards for employers providing other postemployment benefits (OPEB). As part of the implementation, the District elected to establish an irrevocable trust to provide a funding mechanism for the OPEB and to apply the provisions of the statements on a prospective basis. 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 94524.

B. 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 using the actuarial cost method. The actuarial assumptions included (a) 8% investment rate of return, and (b) 7%, 6%, 5% and 4% health inflation increases for fiscal years ending June 30, 2013, 2014, 2015 and 2016, respectively. 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 FINANCIAL STATEMENTS
For the year ended June 30, 2013**

NOTE 7 - POST EMPLOYMENT BENEFITS OTHER THAN RETIREMENT (Continued)

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. As a result, the District has calculated and recorded the net OPEB asset, representing the difference between the ARC, amortization and contributions, as presented below:

Annual required contribution	\$4,807,000
Interest on net OPEB asset	(196,946)
Adjustment on annual required contribution	<u>218,678</u>
Annual OPEB cost	4,828,732
Contributions made	<u>(5,608,627)</u>
Change in net OPEB asset	(779,895)
Net OPEB asset - beginning of year	<u>(2,461,828)</u>
Net OPEB asset - end of year	<u><u>(\$3,241,723)</u></u>

The Trust's annual OPEB cost and actual OPEB Cost contributed for the last three years are as follows:

Fiscal Year	Annual OPEB Cost	Actual Contribution	Percentage of OPEB Costs Contributed	Change in Net OPEB Asset	Net OPEB Obligation (Asset)
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)
6/30/2013	4,828,732	5,608,627	116%	(779,895)	(3,241,723)

The schedule of funding progress presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the underfunded actuarial accrued liability (UAAL) for benefits. Trend data from the July 1, 2011 actuarial study is presented below (in thousands):

Actuarial Valuation Date	Actuarial Value of Assets (A)	Cost Method Actuarial Accrued Liability (B)	Overfunded (Underfunded) Actuarial Accrued Liability (A-B)	Funding Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((A- B)/C)
7/1/2007	\$0	\$48,374	(\$48,374)	0%	\$22,991	-210%
7/1/2009	6,844	59,586	(52,742)	11%	26,049	-202%
7/1/2011	12,560	71,409	(58,849)	18%	27,893	-211%

**CONTRA COSTA WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2013**

NOTE 8 – INVESTMENT IN CONTRA COSTA WATER AUTHORITY

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% 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 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 combined financial statements.

**CONTRA COSTA WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2013**

NOTE 9 - 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, 2013 the District paid \$442,614 for current year coverage.

The District purchased workers' compensation insurance through Wausau Insurance Company. During the fiscal year which ended June 30, 2013, the District paid \$624,745 for current year coverage.

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	Minimum of 100,000
Flood	150,000,000	100,000
Crime	50,000-1,000,000	0 to 10,000
Hull Collision, Protection & Indemnity	1,000,000	500-5000
Workers' Compensation	Statutory	No deductible
Employers Liability	5,000,000	No deductible

The District has not incurred a claim that has exceeded its insurance coverage limits in any of the last three years.

NOTE 10 - 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.

NOTE 11 - SUBSEQUENT EVENTS

2013 Water Revenue Refunding Bonds, Series R – The District issued Water Revenue Bonds of \$91,670,000 on July 30, 2013, to refund the District's outstanding Water Revenue Refunding Bonds, Series M, \$68,635,000 and along with monies held in escrow, to refund Water Revenue Notes, Series A, \$30,625,000 and to refund all of the District's State Revolving Fund loans outstanding \$12,531,545 and for the issuance costs of the 2013 Series R Bonds. The Water Revenue Refunding Bonds are special obligation 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.

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Supplemental Information

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CONTRA COSTA WATER DISTRICT
 COMBINING STATEMENT OF FIDUCIARY NET POSITION
 FIDUCIARY FUNDS
 RETIREMENT PLAN AND OTHER POST-EMPLOYMENT BENEFIT TRUST FUNDS
 AS OF JUNE 30, 2013

	Retirement Plan Trust Fund	Other Post-Employment Benefits Trust Fund	Total
ASSETS			
Cash and cash equivalents	\$6,625,151	\$1,176,647	\$7,801,798
Investments, at fair value:			
U.S. treasury securities	3,587,855	1,652,559	5,240,414
Federal agency securities	1,066,317	971,911	2,038,228
Mortgage/Asset - Backed Securities	12,019,472		12,019,472
Pooled funds	7,299,014		7,299,014
Real estate investment fund	5,249,884		5,249,884
Corporate bonds	9,198,490	4,128,393	13,326,883
Foreign bonds		386,497	386,497
Equity securities	6,093,467	4,262,434	10,355,901
Foreign securities		254,268	254,268
Equity mutual funds	79,438,421	6,773,655	86,212,076
Municipal bonds		239,700	239,700
Total investments	<u>123,952,920</u>	<u>18,669,417</u>	<u>142,622,337</u>
Total Cash and Investments	<u>130,578,071</u>	<u>19,846,064</u>	<u>150,424,135</u>
Receivables:			
Accrued income	218,346		218,346
Contribution due from District	218,087		218,087
Contribution due from participants	66,629		66,629
Total receivables	<u>503,062</u>		<u>503,062</u>
Total assets	<u>131,081,133</u>	<u>19,846,064</u>	<u>150,927,197</u>
LIABILITIES			
Pending trades payable	195,049		195,049
NET POSITION			
Total net position	<u>\$130,886,084</u>	<u>\$19,846,064</u>	<u>\$150,732,148</u>

CONTRA COSTA WATER DISTRICT
 COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 FIDUCIARY FUNDS
 RETIREMENT PLAN AND OTHER POST-EMPLOYMENT BENEFIT TRUST FUNDS
 AS OF JUNE 30, 2013

	Retirement Plan Trust Fund	Other Post-Employment Benefits Trust Fund	Total
ADDITIONS			
Contributions:			
District	\$8,872,881	\$4,723,232	\$13,596,113
Paid by the District on behalf of employees	594,037		594,037
Paid by employees	<u>1,850,942</u>	<u>885,395</u>	<u>2,736,337</u>
Total contributions	<u>11,317,860</u>	<u>5,608,627</u>	<u>16,926,487</u>
Investment income:			
Net (depreciation) appreciation in fair value of investments	10,636,716	1,235,811	11,872,527
Interest, dividends and other	2,950,892	429,456	3,380,348
Less: investment expenses	<u>(56,213)</u>	<u>(82,592)</u>	<u>(138,805)</u>
Total net investment income	<u>13,531,395</u>	<u>1,582,675</u>	<u>15,114,070</u>
Total additions	<u>24,849,255</u>	<u>7,191,302</u>	<u>32,040,557</u>
DEDUCTIONS			
Distributions paid to participants	<u>6,723,591</u>	<u>2,432,933</u>	<u>9,156,524</u>
Total deductions	<u>6,723,591</u>	<u>2,432,933</u>	<u>9,156,524</u>
Change in net position	<u>18,125,664</u>	<u>4,758,369</u>	<u>22,884,033</u>
NET POSITION			
Beginning of year	<u>112,760,420</u>	<u>15,087,695</u>	<u>127,848,115</u>
End of year	<u>\$130,886,084</u>	<u>\$19,846,064</u>	<u>\$150,732,148</u>

APPENDIX B

SUMMARY OF THE TRUST AGREEMENT

The following is a summary of certain provisions of the Trust Agreement as supplemented by the Third Supplemental Trust Agreement. This summary is not to be considered a full statement of the terms and conditions contained in the Trust Agreement 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 Trust Agreement.

DEFINITIONS

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 (a) all Senior Debt and (b) all Notes and Parity Mezzanine 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 Senior Debt, Notes and Parity Mezzanine Debt; provided, however, that for purposes of the calculation of Annual Debt Service:

(a) Except as otherwise provided by subparagraph (b) with respect to Senior Debt, Variable Interest Rate Notes or Parity Mezzanine Debt and by subparagraph (c) with respect to Senior Debt, Notes or Parity Mezzanine Debt with respect to which a Payment Agreement is in force, interest on any Senior Debt, Notes or Parity Mezzanine Debt shall be calculated based on the actual amount of interest that is payable under such Notes or Parity Mezzanine Debt;

(b) The amount of interest deemed to be payable on any Variable Interest Rate Senior Debt, Notes or Parity Mezzanine Debt for any period for which Annual Debt Service on such Variable Interest Rate Senior Debt, Notes or Parity Mezzanine Debt cannot be determined shall be calculated on the assumption that the interest rate on the Senior Debt, Notes or Parity Mezzanine Debt would be equal to the rate that is ninety per cent (90%) of the average SIFMA Index during the twelve (12) calendar month period immediately preceding the date in which the calculation is made; and

(c) With respect to Senior Debt, Notes or Parity Mezzanine Debt with respect to which a Payment Agreement has been entered into by the District, interest on such Senior Debt, Notes or Parity Mezzanine Debt shall be included in the determination of Annual Debt Service by including for each Fiscal Year an amount equal to the amount of interest payable on such Senior Debt, Notes or Parity Mezzanine Debt in such Fiscal Year at the rate or rates stated in such Senior Debt, Notes or Parity Mezzanine Debt plus any Payment Agreement Payments payable in such Fiscal Year minus any Payment Agreement Receipts receivable in such Fiscal Year; provided that in no event shall any calculation made pursuant to this clause result in a number less than zero being included in the determination of Annual Debt Service and provided, further, that the amount of variable rate Payment Agreement Payments or Payment Agreement Receipts for any period for which such Payment Agreement Payments or Payment Agreement Receipts cannot be determined shall be calculated on the assumption that the amount of such variable rate Payment Agreement Payments or Payment Agreement Receipts would be equal to the rate that is ninety per cent (90%) of the average SIFMA Index during the twelve (12) calendar month period immediately preceding the date in which the calculation is made.

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

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.

Available Mezzanine Revenues means, for any Fiscal Year, Net Revenues for such Fiscal Year less the sum of all amounts required to be paid for principal, interest, and reserve fund requirements on Senior Debt for such Fiscal Year.

Excluded Principal Payments shall mean each payment of principal (or the principal component of lease or installment purchase payments) of Senior Debt, Notes or Parity Mezzanine Debt which District specifies in a Certificate of the District filed with the Trustee on a date not later than the date of issuance of such Senior Debt, Notes or Parity Mezzanine Debt that the District intends to pay with moneys which are not Revenues. No such determination shall affect the security for such Senior Debt, Notes or Parity Mezzanine Debt or the obligation of the District to pay such payments from Revenues.

Investment Securities means, 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 Trust Agreement, 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) any bonds or other obligations of any state of the United States of America or any political subdivision thereof, provided that at the time of their purchase such obligations are rated in either of the two highest Rating Categories by each rating agency then rating the Notes;

(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) unsecured certificates of deposit, time deposits and bankers' acceptances of any bank (including those of the Trustee, its parent and its affiliates) the short-term obligations of which are rated on the date of purchase "A-1+" or better by Standard and Poor's Corporation and "P-1" by Moody's Investors Service and certificates of deposit (including those of the Trustee, its parent and its affiliates) secured at all times by collateral that may be used by a national bank for purposes of satisfying its obligations to collateralize pursuant to federal law which are issued by commercial banks, savings and loan associations or mutual savings banks whose short-term obligations are rated on the date of purchase A-1 or better by Standard and Poor's Corporation, Moody's Investors Service;

(ix) commercial paper rated 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 in the highest Rating Category 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 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 or rated "AAAm" or "AAAm-G" or better by Standard and Poor's Corporation, including any such money market fund from which the Trustee or its affiliates receive fees for services to such fund;

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

(xiv) any investment agreement 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; or (ii) 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 Notes;

(xv) shares in a common law trust established pursuant to Title 1, Division 7, Chapter 5 of the California Government Code, which shares are rated in one of the two highest Rating Categories of each rating agency then rating the Notes; and

(xv) the Local Agency Investment Fund of the State of California or any state-administered pool investment fund in which the District is statutorily permitted or required to invest.

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).

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; and

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

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

Net Revenues means for any fiscal period, the sum of (a) the Revenues for such fiscal period plus (b) the amounts, if any, withdrawn by the District from the Rate Stabilization Fund, less the sum of (a) all

Maintenance and Operation Costs for such fiscal period, and (b) the amount of Revenues, if any, deposited by the District into the Rate Stabilization Fund.

Notes means the Contra Costa Water District Water Revenue Notes authorized by, and at any time Outstanding pursuant to, the Trust Agreement.

Outstanding, when used as of any particular time with reference to Notes, means (subject to the provisions of the Trust Agreement relating to disqualified Notes) all Notes theretofore, or thereupon being, authenticated and delivered by the Trustee under the Trust Agreement except (1) Notes theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation; (2) Notes with respect to which all liability of the District shall have been discharged in accordance with the discharge of liability on Notes provisions of the Trust Agreement, including Notes (or portions of Notes) referred to in the money held for particular Notes provision of the Trust Agreement; and (3) Notes for the transfer or exchange of or in lieu of or in substitution for which other Notes shall have been authenticated and delivered by the Trustee pursuant to the Trust Agreement.

Parity Mezzanine 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 Revenues and payable from Available Mezzanine Revenues on a parity with the Notes (whether or not any Notes are Outstanding).

Payment Agreement means a written agreement for the purpose of managing or reducing the District's exposure to fluctuations in interest rates or for any other interest rate, investment, asset or liability managing purposes, entered into either on a current or forward basis by the District and a Qualified Counter-party as authorized under any applicable laws of the State in connection with, or incidental to, the issuance of Senior Debt, Notes or Parity Mezzanine Debt, that provides for an exchange of payments, ceilings or floors on such payments, options on such payments, or any combination thereof or any similar device.

Payment Agreement Payments means the amounts periodically required to be paid by the District to the Qualified Counter-party pursuant to a Payment Agreement.

Payment Agreement Receipts means the amounts periodically required to be paid by the Qualified Counter-party to the District pursuant to a Payment Agreement.

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.

Qualified Counter-party means a party (other than the District or a party related to the District) who is the other party to a Payment Agreement and (1) (a) whose senior debt obligations are rated in one of the two (2) highest Rating Categories of each of the Rating Agencies then rating any Notes, or guaranteed by the parent of (or other person controlling) such entity which is so rated, or (b) whose obligations under the Payment Agreement are guaranteed for the entire term of the Payment Agreement by a bond insurer or other institution which has been assigned a credit rating in one of the two (2) highest Rating Categories of each of the Rating Agencies then rating any Notes, and (2) who is otherwise qualified to act as the other party to a Payment Agreement under any applicable laws of the State.

Rate Stabilization Fund means the fund by that name established by the District pursuant to the Senior Bond Resolution.

Rating Category means (i) with respect to any long term rating category, all ratings designated by a particular letter or combination of letters, without regard to any numerical modifier, plus or minus sign or other modifier and (ii) with respect to any short term or commercial paper rating category, all ratings designated by a particular letter or combination of letters and taking into account any numerical modifier, but not any plus or minus sign or other modifier.

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 Trust Agreement or under the Senior Bond Resolution (other than any fund established pursuant to a Tax 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.

Senior Bond Resolution means Resolution No. 87-50, adopted on the 15th day of October, 1987, by the Board, providing for the issuance of Contra Costa Water District Water Revenue Bonds (referred to herein as “Senior Bonds”), as it may from time to time be supplemented, modified, or amended by any supplemental resolution of the Board in accordance with the terms of Senior Bond Resolution.

Senior Debt means Contra Costa Water District Water Revenue Bonds and Contra Costa Water District Water Revenue Refunding Bonds issued pursuant to the Senior Bond Resolution and Parity Debt (as defined in the Senior Bond Resolution, referred to herein as “Senior Parity Debt”).

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

Supplemental Trust Agreement means any supplemental trust agreement executed and delivered by the District and the Trustee supplementing, modifying or amending the Trust Agreement, but only if and to the extent that such Supplemental Trust Agreement is specifically authorized under the Trust Agreement.

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.

Trust Agreement means the Note Trust Agreement, dated as of June 1, 2010, between the District and the Trustee, as originally executed and delivered and as amended or supplemented from time to time in accordance with the provisions thereof.

Variable Interest Rate means any variable interest rate or rates to be paid under any Senior Debt, Notes or Parity Mezzanine Debt, the method of computing which variable interest rate shall be as specified in the applicable Senior Debt, Notes or Parity Mezzanine Debt, which Senior Debt, Notes or Parity Mezzanine Debt shall also specify either (i) the payment period or periods or time or manner of determining such period or periods or time for which each value of such variable interest rate shall remain in effect, and (ii) the time or times based upon which any change in such variable interest rate shall

become effective, and which variable interest rate may, without limitation, be based on the interest rate on certain bonds or may be based on interest rate, currency, commodity or other indices.

Variable Interest Rate Senior Debt, Notes or Parity Mezzanine Debt means, for any period of time, any Senior Debt, Notes or Parity Mezzanine Debt that bear a Variable Interest Rate during such period, except that Senior Debt, Notes and Parity Mezzanine Debt shall not be treated as Variable Interest Rate Senior Debt, Notes or Parity Mezzanine Debt if the net economic effect of interest rates on particular Senior Debt, Notes or Parity Mezzanine Debt and interest rates on other Senior Debt, Notes or Parity Mezzanine Debt of the same series or the net economic effect of a Payment Agreement with respect to particular Senior Debt, Notes or Parity Mezzanine Debt, in either case is to produce obligations that bear interest at a fixed interest rate, and Senior Debt, Notes or Parity Mezzanine Debt with respect to which a Payment Agreement is in force shall be treated as Variable Interest Rate Senior Debt, Notes or Parity Mezzanine Debt if the net economic effect of the Payment Agreement is to produce obligations that bear interest at a Variable Interest Rate.

THE TRUST AGREEMENT

The Trust Agreement provides for the authentication and delivery of Notes, including the Series C Notes, establishes and declares the terms and conditions upon which Notes, including the Series C Notes, 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 Trust Agreement. See also “THE SERIES C NOTES” and “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES C NOTES” in this Official Statement for a summary of further provisions of the Trust Agreement, as supplemented by the Third Supplemental Trust Agreement.

Authorization, Issuance and Form

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

Limitations on the Issuance of Obligations Payable from Available Mezzanine Revenues

See discussion under the caption “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES C NOTES – Limitations on the Issuance of Obligations Payable from Available Mezzanine Revenues” in the forefront of this Official Statement.

Pledge of Revenues; Notes to Constitute Mezzanine Debt

The Notes are limited obligations, 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 Available Mezzanine Revenues, which are pledged to secure the payment of the principal and purchase price of and interest and premium, if any, on the Notes and any Parity Mezzanine Debt in accordance with their terms, the Revenues subject only to the provisions of the Trust Agreement 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 Notes, without any physical delivery thereof or further act.

The Revenues are pledged to the payment of Notes and Parity Mezzanine 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: In accordance with the Senior Bond Resolution, there shall be applied all sums required for the payment of the principal of (including any premium thereon) and interest on the Senior Debt, together with any sinking fund or reserve fund payments on the Senior Debt and any deposits required to the Senior Bond Reserve Fund under the Senior Bond Resolution.

Third: There shall be applied all sums required for the payment of principal of (including any premium thereon) and interest on the Notes and all Parity Mezzanine Debt, together with any reserve fund payments of Notes and Parity Mezzanine 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 Notes and all Parity Mezzanine Debt are no longer Outstanding.

The Notes and all Parity Mezzanine Debt shall constitute "Mezzanine Debt" under and as defined in Resolution No. 97-1 of the District, adopted on January 8, 1997, and shall be secured by a lien on the Revenues senior to the lien created by Resolution No. 97-1 and securing the District's Tax-Exempt Commercial Paper and any Parity Notes under and as defined in Resolution No. 97-1.

For a discussion of allocation of Available Mezzanine Revenues under the Trust Agreement see discussion under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES C NOTES – Allocation of Available Mezzanine Revenues under the Trust Agreement" in the forepart of this Official Statement.

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.

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 Notes.

Rate and Charges; Debt Coverage

So long as any of the Notes are Outstanding, the District will, to the fullest extent permitted by law, 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 the Mezzanine Debt Service Coverage Ratio at the end of each such Fiscal Year is not less than 1.25:1.0. 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 described in this paragraph. The District shall increase such rates, fees and charges whenever necessary to produce Net Revenues sufficient to meet the requirements described in this paragraph and of any Supplemental Trust Agreement creating any Series of Notes. For purposes of the requirements described in this paragraph only, the Mezzanine Debt 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.

For purposes of the requirements described in the paragraph above only, the Mezzanine Debt 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, including without limitation interest paid from the proceeds of Senior Debt, Notes or Parity Mezzanine Debt) rather than with respect to Maximum Annual Debt Service.

Issuance of Senior Debt; Amendment of Senior Bond Resolution

The District shall not issue or incur additional Senior Debt except in compliance with the Senior Bond Resolution.

The District shall not amend, modify or supplement the Senior Bond Resolution except in compliance with the Senior Bond Resolution. No such amendment, modification or supplement shall permit the creation of any lien on the Revenues prior to or on a parity with the lien created by the Trust Agreement without the consent of the holders of all of the Notes and Parity Mezzanine Debt then outstanding.

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 Note when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise;
- (b) default in the due and punctual payment of any installment of interest on any Note 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 Trust Agreement 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 Mezzanine Debt and such default shall continue beyond the grace period, if any, provided for with respect to such default;
- (e) if the holder of any Senior Debt or the trustee for any holders of Senior Debt at the time outstanding exercises a right under the Senior Debt or the constituent instruments under which such Senior Debt was issued to declare the principal thereof (and interest accrued thereon) to be payable prior to the maturity thereof;

- (f) 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;
- (g) 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
- (h) 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 Notes at the time Outstanding shall be entitled, upon notice in writing to the District, to declare the principal of all of the Notes 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 Trust Agreement or in the Notes contained to the contrary notwithstanding.

Application of Revenues and Other Funds After Default

If an Event of Default shall occur and be continuing, all Available Mezzanine Revenues and any other funds then held or thereafter received by the Trustee under any of the provisions of the Trust Agreement (except as otherwise provided in the Trust Agreement) 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 Notes 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 Trust Agreement;
- (2) To the payment of the principal or Redemption Price of and interest then due on the Notes and Parity Mezzanine Debt (upon presentation of the Notes and Parity Mezzanine 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 Trust Agreement, as follows:
 - (i) Unless the principal of all of the Notes and Parity Mezzanine 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 Notes and Parity Mezzanine 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 Notes, and, if the amount available shall not be sufficient to pay in full all the Notes and Parity Mezzanine 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 Notes and Parity Mezzanine 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 Notes and Parity Mezzanine Debt, with interest on the overdue principal at the rate borne by the respective Notes and Parity Mezzanine 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 Note or Parity Mezzanine Debt over any other Note or Parity Mezzanine Debt, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference.

Trustee to Represent Noteholders

The Trustee is irrevocably appointed (and the successive respective Holders of the Notes, 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 Notes 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 Notes, the Trust Agreement, 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 Noteholders, 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 Notes 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 Trust Agreement, or in aid of the execution of any power granted in the Trust Agreement, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Holders under the Trust Agreement, 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 Trust Agreement, pending such proceedings. All rights of action under the Trust Agreement or the Notes or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Notes 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 Notes, subject to the provisions of the Trust Agreement.

Noteholders' Direction of Proceedings

Anything in the Trust Agreement to the contrary notwithstanding, the Holders of a majority in aggregate principal amount of the Notes 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 Trust Agreement, provided that such direction shall not be otherwise than in accordance with law and the provisions of the Trust Agreement, 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 Noteholders or holders of Parity Mezzanine Debt not parties to such direction.

Limitation on Noteholders' Right to Sue

No Holder of any Note 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 Trust Agreement, the Law or any other applicable law with respect to such Note, 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 Notes 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 Notes of any remedy under the Trust Agreement or under law; it being understood and intended that no one or more Holders of Notes shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Trust Agreement or the rights of any other Holders of Notes, or to enforce any right under the Trust Agreement, the Law or other applicable law with respect to the Notes, except in the manner provided in the Trust Agreement, 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 Trust Agreement and for the benefit and protection of all Holders of the Outstanding Notes, subject to the provisions of the Trust Agreement.

Amendments Permitted

The Trust Agreement and the rights and obligations of the District, the Holders of the Notes and the Trustee may be modified or amended from time to time and at any time by a Supplemental Trust Agreement, which the District may execute and deliver with the written consent of the Holders of a majority in aggregate principal amount of the Notes 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 Notes of any particular maturity remain Outstanding, the consent of the Holders of such Notes shall not be required and such Notes shall not be deemed to be Outstanding for the purpose of any calculation of Notes Outstanding under this paragraph. No such modification or amendment shall (1) extend the fixed maturity of any Note, or reduce the amount of principal thereof, or extend the time of payment, 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 Note so affected, or (2) reduce the aforesaid percentage of Notes 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 Trust Agreement prior to or on a parity with the lien created by the Trust Agreement, or deprive the Holders of the Notes of the lien created by the Trust Agreement on such Revenues and other assets (except as expressly provided in the Trust Agreement), without the consent of the Holders of all of the Notes then Outstanding. It shall not be necessary for the consent of the Noteholders to approve the particular form of any Supplemental Trust Agreement, but it shall be sufficient if such consent shall

approve the substance thereof. Promptly after the execution and delivery of any Supplemental Trust Agreement pursuant to this paragraph, the Trustee shall mail a notice, setting forth in general terms the substance of such Supplemental Trust Agreement to the Holders of the Notes 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 Trust Agreement.

The Trust Agreement and the rights and obligations of the District, of the Trustee and of the Holders of the Notes may also be modified or amended from time to time and at any time by any Supplemental Trust Agreement, which the District may execute and deliver 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 Trust Agreement, other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Notes (or any portion thereof), or to surrender any right or power in the Trust Agreement 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 Notes;
- (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 Trust Agreement, or in regard to matters or questions arising under the Trust Agreement, as the District may deem necessary or desirable and not inconsistent with the Trust Agreement, and which shall not materially and adversely affect the interests of the Holders of the Notes;
- (3) to notify, amend or supplement the Trust Agreement 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 Notes;
- (4) to make provisions for the issuance of variable rate or Parity Mezzanine Debt; provided that no such provisions shall materially and adversely affect the interests of the Holders of the Notes;
- (5) to provide for the issuance of Notes in book-entry form, provided that no such provision shall materially and adversely affect the interests of the Holders of the Notes; and
- (6) if the District has agreed in a Supplemental Trust Agreement to maintain the exclusion of interest on a Series of Notes from gross income for purposes of federal income taxation, to make such provisions as are necessary or appropriate to ensure such exclusion.

Discharge of Notes and the Trust Agreement

The District may pay Notes 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 Trust Agreement by the District:

- (a) by paying or causing to be paid the principal or Redemption Price of and interest on all Notes 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 Investment Securities in the necessary amount (as provided in the Trust Agreement) to pay or redeem all Notes Outstanding of the Series; or
- (c) by delivering to the Trustee, for cancellation by it, all Notes then Outstanding of the Series.

If the District shall pay all Series for which any Notes are Outstanding and also pay or cause to be paid all other sums payable under the Trust Agreement 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 Trust Agreement), and notwithstanding that any Notes shall not have been surrendered for payment, the Trust Agreement and the pledge of Revenues and other assets made under the Trust Agreement and all covenants, agreements and other obligations of the District under the Trust Agreement 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 Trust Agreement 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 Notes not theretofore surrendered for such payment or redemption.

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS FROM SENIOR BOND RESOLUTION RELATING TO LIMITATIONS ON ISSUANCE OF OBLIGATIONS PAYABLE FROM NET REVENUES

The following is a summary of certain provisions of the Senior Bond Resolution relating to limitations on issuance of Obligations payable from Net Revenues. This summary is not to be considered a full statement of the terms and conditions contained in the Senior Bond Resolution and accordingly is qualified by reference thereto and is subject to the full text thereof. All capitalized terms not otherwise defined in this Official Statement or Appendix C to this Official Statement shall have the meanings set forth in the Senior Bond 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 Senior Bonds and Senior 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 Senior Bonds and Senior Parity Debt; provided, however, that for purposes of the calculation of Annual Debt Service:

(A) Generally. Except as otherwise provided by subparagraph (B) with respect to Variable Interest Rate Senior Bonds or Senior Parity Debt and by subparagraph (C) with respect to Senior Bonds or Senior Parity Debt with respect to which a Payment Agreement is in force, interest on any Senior Bonds or Senior Parity Debt shall be calculated based on the actual amount of interest that is payable under such Senior Bonds or Senior Parity Debt;

(B) Interest on Variable Interest Rate Senior Bonds and Senior Parity Debt. The amount of interest deemed to be payable on any Variable Interest Rate Senior Bonds or Senior Parity Debt shall be calculated on the assumption that the interest rate on the Senior Bonds or Senior Parity Debt would be equal to the rate (the "assumed RBI based rate") that is ninety per cent (90%) of the average RBI during the twelve (12) calendar month period immediately preceding the date in which the calculation is made;

(C) Interest on Senior Bonds and Senior Parity Debt with respect to which a Payment Agreement is in force. The amount of interest deemed to be payable on any Senior Bonds or Senior Parity Debt with respect to which a Payment Agreement is in force shall be based on the net economic effect on the District expected to be produced by the terms of such Senior Bonds or Senior Parity Debt and such Payment Agreement, including but not limited to the effects that (i) such Senior Bonds or Senior Parity Debt would, but for such Payment Agreement, be treated as obligations bearing interest at a Variable Interest Rate instead shall be treated as an obligation bearing interest at a fixed interest rate, and (ii) such Senior Bonds or Senior Parity Debt would, but for such Payment Agreement, be treated as obligations bearing interest at a fixed interest rate instead shall be treated as obligations bearing interest at a Variable Interest Rate; and accordingly, the amount of interest deemed to be payable on any Senior Bonds or Senior Parity Debt with respect to which a Payment Agreement is in force shall be an amount equal to the amount of interest that would be payable at the rate or rates stated in such Senior Bonds or Senior Parity Debt plus the Payment Agreement Payments minus the Payment

Agreement Receipts, and for the purpose of calculating as nearly as practicable Payment Agreement Receipts and Payment Agreement Payments under such Payment Agreement, the following assumptions shall be made:

(1) Counterparty Obligated to Pay Actual Variable Interest Rate on Variable Interest Rate Senior Bonds or Senior Parity Debt. If the Payment Agreement obligates a Qualified Counterparty to make payments to the District based on the actual Variable Interest Rate on Senior Bonds or Senior Parity Debt that would, but for the Payment Agreement, be treated as Variable Interest Rate Senior Bonds or Senior Parity Debt and obligates the District to make payments to the Qualified Counterparty based on a fixed rate, payments by the District to the Qualified Counterparty shall be assumed to be made at the fixed rate specified by the Payment Agreement and payments by the Qualified Counterparty to the District shall be assumed to be made at the actual Variable Interest Rate on such Senior Bonds or Senior Parity Debt, without regard to the occurrence of any event that, under the provisions of the Payment Agreement, would permit the Qualified Counterparty to make payments on any basis other than the actual Variable Interest Rate on such Senior Bonds or Senior Parity Debt, and such Senior Bonds or Senior Parity Debt shall set forth a debt service schedule based on that assumption;

(2) Variable Interest Rate Senior Bonds or Senior Parity Debt and Payment Agreements Having the Same Variable Interest Rate Component. If both a Payment Agreement and the related Senior Bonds or Senior Parity Debt that would, but for the Payment Agreement, be treated as Variable Interest Rate Senior Bonds or Senior Parity Debt include a variable interest rate payment component that is required to be calculated on the same basis (including, without limitation, on the basis of the same variable interest rate index), it shall be assumed that the variable interest rate payment component payable pursuant to the Payment Agreement is equal in amount to the variable interest rate component payable on such Senior Bonds or Senior Parity Debt;

(3) Variable Interest Rate Senior Bonds or Senior Parity Debt and Payment Agreements Having Different Variable Interest Rate Components. If a Payment Agreement obligates either the District or the Qualified Counterparty to make payments of a variable interest rate component on a basis that is different (including, without limitation, on a different variable interest rate index) from the basis that is required to be used to calculate interest on the Senior Bonds or Senior Parity Debt that would, but for the Payment Agreement, be treated as Variable Interest Rate Senior Bonds or Senior Parity Debt it shall be assumed:

(a) District Obligated to Make Payments Based on Variable Interest Rate Index. If payments by the District under the Payment Agreement are based on a variable interest rate index and payments by the Qualified Counterparty are based on a fixed interest rate, payments by the District to the Qualified Counterparty will be based upon an interest rate equal to the assumed RBI based rate, and payments by the Qualified Counterparty to the District will be based on the fixed rate specified by the Payment Agreement; and

(b) District Obligated to Make Payments Based on Fixed Interest Rate. If payments by the District under the Payment Agreement are based on a fixed interest rate and payments by the Qualified Counterparty are based on a variable interest rate index, payments by the District to the Qualified Counterparty will be based on an interest rate equal to the rate (the "assumed fixed payor rate") that is one hundred and five per cent (105%) of the fixed interest rate specified by the Payment Agreement, and payments by the Qualified Counterparty to the District will be based on a rate equal to the actual Variable Interest Rate on the Variable Interest Rate Senior Bonds or Senior Parity Debt.

(4) Certain Payment Agreements May be Disregarded. Notwithstanding the provisions of subparagraphs (C)(1), (2) and (3) of this definition, the District shall not be required to (but

may at its option) take into account (for the purpose of determining Annual Debt Service) the effects of any Payment Agreement that has a remaining term of ten (10) years or less.

(D) Debt Service on Payment Agreements. No interest shall be taken into account with respect to a Payment Agreement for any period during which Payment Agreement Payments on that Payment Agreement are taken into account in determining Annual Debt Service on related Senior Bonds or Senior Parity Debt under subparagraph (C) of this definition; provided, that for any period during which Payment Agreement Payments are not taken into account in calculating Annual Debt Service on any Senior Bonds or Senior Parity Debt because the Payment Agreement is not then related to any Senior Bonds or Senior Parity Debt, interest on that Payment Agreement shall be taken into account by assuming:

(1) District Obligated to Make Payments Based on Fixed Interest Rate. If the District is obligated to make Payment Agreement Payments based on a fixed interest rate and the Qualified Counterparty is obligated to make payments based on a variable interest rate index, payments by the District will be based on the assumed fixed payor rate, and payments by the Qualified Counterparty will be based on a rate equal to the average rate determined by the variable interest rate index specified by the Payment Agreement during the quarter preceding the quarter in which the calculation is made; and

(2) District Obligated to Make Payments Based on Variable Interest Rate Index. If the District is obligated to make Payment Agreement Payments based on a variable interest rate index and the Qualified Counterparty is obligated to make payments based on a fixed interest rate, payments by the District will be based on an interest rate equal to the average rate determined by the variable interest rate index specified by the Payment Agreement during the quarter preceding the quarter in which the calculation is made, and the Qualified Counterparty will make payments based on the fixed rate specified by the Payment Agreement; and

(3) Certain Payment Agreements May be Disregarded. Notwithstanding the provisions of subparagraphs (D)(1) and (2) of this definition, the District shall not be required to (but may at its option) take into account (for the purpose of determining Annual Debt Service) the effects of any Payment Agreement that has a remaining term of ten (10) years or less.

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 thirty (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 thirty (30) days of the date of calculation.

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 shall mean each payment of principal (or the principal component of lease or installment purchase payments) of Senior Bonds or Senior Parity Debt which District determines (on a date not later than the date of issuance of such Senior Bonds or Senior Parity Debt) that the District intends to pay with moneys which are not Revenues. No such determination shall affect the security for such Senior Bonds or Senior Parity Debt or the obligation of the District to pay such payments from Revenues. No payment of principal of Senior Bonds or Senior Parity Debt may be determined to be an Excluded Principal Payment unless it is due within thirty (30) years from the date of issuance of such Senior Bonds or Senior Parity Debt.

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

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.

Payment Agreement means a written agreement for the purpose of managing or reducing the District's exposure to fluctuations in interest rates or for any other interest rate, investment, asset or liability managing purposes, entered into either on a current or forward basis by the District and a Qualified Counter-party as authorized under any applicable laws of the State of California in connection with, or incidental to, the issuance of Senior Bonds or Senior Parity Debt, that provides for an exchange of payments based on inter-Government rates, ceilings or floors on such payments, options on such payments, or any combination thereof or any similar device.

Payment Agreement Payments means the amounts periodically required to be paid by the District to the Qualified Counter-party pursuant to a Payment Agreement.

Payment Agreement Receipts means the amounts periodically required to be paid by the Qualified Counter-party to the District pursuant to a Payment Agreement.

Qualified Counter-party means a party (other than the District or a party related to the District) who is the other party to a Payment Agreement and (1) (a) whose senior debt obligations are rated in one of the two (2) highest rating categories of each of the Rating Agencies then rating any Senior Bonds (without regard to any gradations within a rating category), or guaranteed by the parent of (or other person controlling) such entity which is so rated, or (b) whose obligations under the Payment Agreement are guaranteed for the entire term of the Payment Agreement by a bond insurer or other institution which has been assigned a credit rating in one of the two (2) highest rating categories of each of the Rating Agencies then rating any Senior Bonds, and (2) who is otherwise qualified to act as the other party to a Payment Agreement under any applicable laws of the State of California.

RBI means the Bond Buyer Revenue Bond Index or comparable index, or, if no comparable index can be obtained, eighty per cent (80%) of the interest rate on actively traded thirty (30) year United States Treasury obligations.

Senior Bond Reserve Fund means the Bond Reserve Fund established pursuant to the Senior Bond Resolution.

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

Variable Interest Rate means any variable interest rate or rates to be paid under any Senior Bonds or Senior Parity Debt, the method of computing which variable interest rate shall be as specified in the applicable Senior Bonds or Senior Parity Debt, which Senior Bonds or Senior Parity Debt shall also specify either (i) the payment period or periods or time or manner of determining such period or periods or time for which each value of such variable interest rate shall remain in effect, and (ii) the time or times based upon which any change in such variable interest rate shall become effective, and which variable interest rate may, without limitation, be based on the interest rate on certain bonds or may be based on interest rate, currency, commodity or other indices.

Variable Interest Rate Senior Bonds or Senior Parity Debt means, for any period of time, any Senior Bonds or Senior Parity Debt that bear a Variable Interest Rate during such period, except that Senior Bonds and Senior Parity Debt shall not be treated as Variable Interest Rate Senior Bonds or Senior Parity Debt if the net economic effect of interest rates on particular Senior Bonds or Senior Parity Debt and interest rates on other Senior Bonds or Senior Parity Debt of the same series or the net economic effect of a Payment Agreement with respect to particular Senior Bonds or Senior Parity Debt, in either case is to produce obligations that bear interest at a fixed interest rate, and Senior Bonds or Senior Parity Debt with respect to which a Payment Agreement is in force shall be treated as Variable Interest Rate Senior Bonds or Senior Parity Debt if the net economic effect of the Payment Agreement is to produce obligations that bear interest at a Variable Interest Rate.

Summary of Provisions of the Senior Bond Resolution Relating to Limitations on Issuance of Obligations Payable from Net Revenues.

The District has covenanted in the Senior Bond Resolution that it will not, so long as any of the Senior Bonds are outstanding, issue any obligations or securities, howsoever denominated, payable in whole or in part from Net Revenues except the following (capitalized terms used under this heading and not defined have the meaning set forth in the Senior Bond Resolution):

(a) Senior Bonds payable from Net Revenues and secured by the pledge made under the Senior Bond Resolution equally and ratably with Senior Bonds previously issued, provided that the following conditions are satisfied:

(i) No Event of Default under the Senior Bond Resolution shall have occurred and then be continuing.

(ii) Subject to the provisions of the Senior Bond Resolution relating to the funding and application of the Senior Bond Reserve Fund (established under the Senior Bond Resolution for the benefit of the Senior Bonds), the Supplemental Senior Resolution providing for the issuance of such Series shall require that the balance in the Senior 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 Senior Bond Reserve Requirement with respect to all Senior 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 Senior Resolution.

(iii) The aggregate principal amount of Senior Bonds issued under the Senior Bond Resolution shall not exceed any limitation imposed by law or by any Supplemental Senior 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 Senior Bonds and including the Senior Bonds and Senior Parity Debt then Outstanding and such additional Series of Senior 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 Senior 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 Senior Bonds then being issued;

or (ii):

- (A) The District has complied with Debt Service Coverage Ratio and Obligation Service Coverage Ratio provisions of the Senior Bond Resolution 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 Senior 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 Senior Bonds is to be paid from the proceeds of such Senior Bonds) is projected to be at least equal to 1.25:1.0.

(b) Refunding Senior Bonds in an aggregate principal amount sufficient (together with other available funds) to pay the principal or redemption price of all outstanding Senior Bonds or Senior Parity Debt to be refunded, all expenses incidental thereto, interest on all Outstanding Senior Bonds or Senior

Parity Debt to be refunded to the date such Senior Bonds or Senior Parity Debt will be called for redemption or paid at maturity and interest on the Refunding Senior Bonds from the date thereof to the date of payment of redemption of the Senior Bonds or Senior Parity Debt to be refunded.

(c) Senior Parity Debt payable on a parity with the outstanding Senior 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 Senior Parity Debt are satisfied:

(1) Such Senior Parity Debt has been duly and legally authorized for any lawful purpose.

(2) The proceedings for the issuance of such Senior 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 under the Senior Bond Resolution 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 Senior Bonds or Senior Parity Debt and including the Senior Bonds and Senior Parity Debt then outstanding and such additional Senior Bonds or Senior 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 Senior Bonds or Senior 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 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 Senior Bonds or Senior 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 Senior Bonds or Senior Parity Debt then

outstanding but not such additional Senior Bonds or Senior 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 Senior Bonds or Senior Parity Debt (or, if later, the first full Fiscal Year in which less than 10% of the interest coming due on such additional Senior Bonds or Senior Parity Debt is to be paid from the proceeds of such Senior Bonds or Senior 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 Senior Bonds or Senior 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 Senior Bonds and all Senior 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 Senior Bonds and all Senior Parity Debt, as the same become due and payable and at the times and in the manner as required in the Senior Bond Resolution.

APPENDIX D

PROPOSED FORM OF BOND COUNSEL OPINION

[Delivery Date]

Contra Costa Water District
Concord, California

\$23,790,000
Contra Costa Water District
(Contra Costa County, California)
Water Revenue Refunding Notes, Series C
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the Contra Costa Water District (the "District") in connection with the issuance of \$23,790,000 aggregate principal amount of Contra Costa Water District Water Revenue Refunding Notes, Series C (the "Notes"), issued pursuant to a Note Trust Agreement, dated as of June 1, 2010, between the District and U.S. Bank National Association, as trustee (the "Trustee"), as supplemented and amended, including as supplemented by a Third Supplemental Note Trust Agreement, dated as of September 1, 2014 (collectively, the "Trust Agreement"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Trust Agreement.

In such connection, we have reviewed the Trust Agreement; the Tax Certificate; opinions of counsel to the District and 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 Notes 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 Trust Agreement 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 Notes to be included in gross income for federal income tax purposes. We call attention to

the fact that the rights and obligations under the Notes, the Trust Agreement and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against county water districts in the State of California. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), right of set-off, arbitration, judicial reference, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the assets described in or as subject to the lien of the Trust Agreement or the 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 Notes 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 Notes constitute the valid and binding limited obligations of the District.
2. The Trust Agreement has been duly executed and delivered by, and constitutes the valid and binding obligation of, the District. The Trust Agreement creates a valid pledge, to secure the payment of the principal of and interest on the Notes, of the Revenues and any other amounts held by the Trustee in the Interest Fund, Principal Fund and Redemption Fund established pursuant to the Trust Agreement, subject to the provisions of the Trust Agreement permitting the application thereof for the purposes and on the terms and conditions set forth in the Trust Agreement.
3. The Notes 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 other political subdivision thereof is pledged to the payment of the principal of or interest on the Notes. The Notes are not a debt of the State of California, and said State is not liable for the payment thereof.
4. Interest on the Notes is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Interest on the Notes is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Notes.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

Per

APPENDIX E

SUMMARY OF DEBT SERVICE OBLIGATIONS

The following table summarizes the annual debt service requirements for the District's outstanding Senior Debt and Notes. It does not include principal and interest requirements of assessment bonds which are paid by benefited property owners.

The District intends to refinance the Notes at their respective maturities with Additional Notes until Fiscal Year 2022 and then expects to issue Senior Debt to refund the Notes rather than pay the principal thereof with Available Mezzanine Revenues. Pursuant to the Trust Agreement, the principal amount of such maturing Notes is treated as Excluded Principal and Assumed Debt Service rather than the scheduled maturing principal will be included when calculating Maximum Annual Debt Service for purposes of the Mezzanine Debt Service Coverage Ratio (which is calculated in connection with the issuance of additional Notes). See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES C NOTES – Limitations on the Issuance of Obligations Payable from Available Mezzanine Revenues." The following table reflects actual interest payment on the Notes until their respective stated maturities, then assumes Additional Notes will be issued to refund such Notes at the same rates until Fiscal Year 2022. Assumes the issuance of long term bonds to refund the Notes in Fiscal Year 2022 at an interest rate of 3.76%. For more information see "PLAN OF REFUNDING," "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES C NOTES – Outstanding Debt of the District," and "WATER SYSTEM FINANCES – Projected Operating Results and Debt Service Coverage" in this Official Statement.

OUTSTANDING PRINCIPAL AND INTEREST REQUIREMENTS

Fiscal Year (June 30)	Water Revenue Bond Debt Service	Authority 2012 Series A Bonds Debt Service	Outstanding Notes Projected Debt Service	Series C Notes Projected Debt Service	Total Senior Debt and Note Debt Service⁽¹⁾
2015	\$30,398,304.17	\$2,336,900.00	\$3,458,375.00	\$368,745.00	\$36,562,324.17
2016	33,695,862.50	3,770,600.00	3,022,900.00	713,700.00	41,203,062.50
2017	39,375,612.50	3,771,825.00	3,022,900.00	713,700.00	46,884,037.50
2018	39,262,375.00	3,777,675.00	3,022,900.00	713,700.00	46,776,650.00
2019	39,664,000.00	3,777,925.00	3,022,900.00	713,700.00	47,178,525.00
2020	36,835,500.00	3,786,050.00	3,022,900.00	713,700.00	44,358,150.00
2021	35,073,400.00	3,780,875.00	3,022,900.00	713,700.00	42,590,875.00
2022	32,463,350.00	--	4,269,034.00	1,251,354.00	37,983,738.00
2023	31,012,325.00	--	4,118,541.46	1,335,970.84	36,466,837.30
2024	28,918,750.00	--	4,118,541.46	1,335,970.84	34,373,262.30
2025	28,396,625.00	--	4,118,541.46	1,335,970.84	33,851,137.30
2026	28,564,537.50	--	4,118,541.46	1,335,970.84	34,019,049.80
2027	28,213,450.00	--	4,118,541.46	1,335,970.84	33,667,962.30
2028	11,004,250.00	--	4,118,541.46	1,335,970.84	16,458,762.30
2029	11,001,475.00	--	4,118,541.46	1,335,970.84	16,455,987.30
2030	11,011,450.00	--	4,118,541.46	1,335,970.84	16,465,962.30
2031	7,925,675.00	--	4,118,541.46	1,335,970.84	13,380,187.30
2032	7,927,750.00	--	4,118,541.46	1,335,970.84	13,382,262.30
2033	5,321,825.00	--	4,118,541.46	1,335,970.84	10,776,337.30
2034	1,531,625.00	--	4,118,541.46	1,335,970.84	6,986,137.30
2035	1,535,125.00	--	4,118,541.46	1,335,970.84	6,989,637.30
2036	1,536,125.00	--	4,118,541.46	1,335,970.84	6,990,637.30
2037	1,534,625.00	--	4,118,541.46	1,335,970.84	6,989,137.30
2038	1,535,500.00	--	4,118,541.46	1,335,970.84	6,990,012.30
2039	1,533,625.00	--	4,118,541.46	1,335,970.84	6,988,137.30
2040	1,533,875.00	--	4,118,541.46	1,335,970.84	6,988,387.30
2041	1,536,000.00	--	4,118,541.46	1,335,970.84	6,990,512.30
2042	1,534,875.00	--	4,118,541.46	1,335,970.84	6,989,387.30
2043	1,535,375.00	--	4,118,541.46	1,335,970.84	6,989,887.30
2044	1,532,375.00	--	4,118,541.46	1,335,970.84	6,986,887.30

Fiscal Year (June 30)	Water Revenue Bond Debt Service	Authority 2012 Series A Bonds Debt Service	Outstanding Notes Projected Debt Service	Series C Notes Projected Debt Service	Total Senior Debt and Note Debt Service⁽¹⁾
2045	--	--	\$4,118,541.46	\$1,335,970.84	\$5,454,512.30
2046	--	--	4,118,541.46	1,335,970.84	5,454,512.30
2047	--	--	4,118,541.46	1,335,970.84	5,454,512.30
2048	--	--	4,118,541.46	1,335,970.84	5,454,512.30
2049	--	--	4,118,541.46	1,335,970.84	5,454,512.30
2050	--	--	4,118,541.46	1,335,970.84	5,454,512.30
2051	--	--	4,118,541.46	1,335,970.84	5,454,512.30
2052	--	--	4,118,541.46	1,335,970.84	5,454,512.30
TOTAL	\$502,945,641.67	\$25,001,850.00	\$149,421,052.72	\$45,981,424.15	\$723,349,968.54

⁽¹⁾ Excludes Assessment District Bonds.

APPENDIX F

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 dissemination agent (the “Dissemination Agent”) in connection with the issuance of \$23,790,000 Contra Costa Water District Water Revenue Refunding Notes, Series C (the “Series C Notes”). The Series C Notes are being issued pursuant to a Note Trust Agreement, dated as of June 1, 2010, between the District and U.S. Bank National Association, as trustee (the “Trustee”), as amended and supplemented (the “Trust Agreement”), including as supplemented by the Third Supplemental Note Trust Agreement, dated as of September 1, 2014, between the District and the Trustee (the “Third Supplemental Trust Agreement”) relating to the Series C Notes.

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 C Notes and in order to assist the Participating Underwriter of the Series C Notes in complying with the Rule (defined below).

Section 2. Definitions. In addition to the definitions set forth in the Trust Agreement 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 Notes (including persons holding Notes through nominees, depositories or other intermediaries).

“Disclosure Representative” shall mean the Director of Finance 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 C Notes required to comply with the Rule in connection with offering of the Series C Notes.

“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 2013-2014 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 the paragraph above 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). 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 C Notes, dated September 11, 2014, 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) Daily Gross Water Consumption;
- (vi) Treated Water Rates and Charges;
- (vii) Untreated Water Rates and Charges;
- (viii) Charges for New Service;
- (ix) Uncollectible Revenue;
- (x) Schedule of Debt Service Coverage per Trust Agreement;
- (xi) Summary of Revenues, Expenses and Changes in Net Assets (which will routinely be found in the annual audit);
- (xii) Retirement Program (information about which will routinely be found in the annual audit); and
- (xiii) 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 C Notes 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 C Notes, if material, in a timely manner not later than ten business days after the occurrence of the event:

1. Unless described in paragraph 5(a)(5), adverse tax opinions or other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Series C Notes or other material events affecting the tax status of the Series C Notes;
2. Modifications to rights of Note holders;
3. Optional, unscheduled or contingent Note calls;
4. Release, substitution, or sale of property securing repayment of the Series C Notes;
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 C Notes pursuant to the Trust Agreement.

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 and Dissemination Agent's obligations under this Disclosure Agreement, except to the extent set forth in Section 12, shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Series C Notes. If such termination occurs prior to the final maturity of the Series C Notes, 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. 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 and the Dissemination Agent may amend this Disclosure Agreement (and the Dissemination Agent shall agree to any amendment so requested by the District, provided that the Dissemination Agent shall not be obligated to enter into any such amendment that modifies or increases its respective 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 C Notes, 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 C Notes, 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 C Notes in the same manner as provided in the Trust Agreement for amendments to the Trust Agreement 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 C Notes.

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 Dissemination Agent to comply with any provisions of the Disclosure Agreement, the Dissemination Agent, at the written request of any Participating Underwriter or the Holders of at least 25% aggregate principal amount of Outstanding Notes, shall (but only to the extent funds in an amount satisfactory to the Dissemination Agent 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 Dissemination Agent whatsoever, including, without limitation, fees and expenses of its attorneys), or any Holder or Beneficial Owner of the Series C Notes 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 Dissemination Agent, 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 Trust Agreement, and the sole remedy under this Disclosure Agreement in the event of any failure of the District or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of 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 shall have no duty or obligation to review any information provided to it hereunder. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Series C Notes.

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 Dissemination Agent: U.S. Bank National Association
Global Corporate Trust Services
One California Street, 10th Floor
San Francisco, CA 94111

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 Dissemination Agent, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Series C Notes, and shall create no rights in any other person or entity.

Section 14. 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: _____, 2014.

CONTRA COSTA WATER DISTRICT

By _____
Director of Finance

**U.S. BANK NATIONAL ASSOCIATION,
as Dissemination Agent**

By _____
Authorized Officer

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Contra Costa Water District

Name of Issue: Contra Costa Water District Water Revenue Refunding Notes, Series C

Date of Issuance: _____, 2014

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 Notes 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

cc: Contra Costa Water District

APPENDIX G

DTC DESCRIPTION

The information in this APPENDIX G 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 C Notes; (b) confirmations of ownership interest in Series C Notes; or (c) notices sent to DTC or Cede & Co., its nominee, as the registered owner of Series C Notes, 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 C Notes; (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 Trust Agreement; or (4) any consent given or other action taken by DTC as registered owner of Series C Notes.

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

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 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 the 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 C Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series C Notes on DTC's records. The ownership interest of each actual purchaser of each Series C Note (the "Beneficial Owner") in turn is 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 C Notes 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 C Notes, except in the event that use of the book-entry system for the Series C Notes is discontinued.

To facilitate subsequent transfers, all Series C Notes 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 C Notes 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 C Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series C Notes 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 C Notes 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 C Notes unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to 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 C Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal of and interest payments on the Series C Notes will be made to Cede & Co., or such other name as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, on each payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the date payable. Payments by Direct and Indirect 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 principal and interest 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 shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series C Notes 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 as described in the Trust Agreement.

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 C Note certificates will be printed and delivered to DTC.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE SERIES C NOTES, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE HOLDERS SHALL MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE SERIES C NOTES.

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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