

*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 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of federal individual or corporate alternative minimum taxes, although Bond Counsel observes that it is included in adjusted current earnings in calculating federal corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences caused by the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "TAX MATTERS" herein.*



\$26,340,000

## ALAMEDA COUNTY WATER DISTRICT

## 2009 WATER SYSTEM REFUNDING REVENUE BONDS

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

The above-captioned Bonds (the "Bonds") are being issued in fully registered form without coupons and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Payments of the principal of, premium, if any, and interest on the Bonds will be made by U.S. Bank National Association, as trustee for the Bonds (the "Trustee") to DTC, which is obligated in turn to remit such principal, premium, if any, and interest to its DTC Participants for subsequent disbursement to the beneficial owners of the Bonds.

The Bonds are being issued by the Alameda County Water District (the "District") to provide funds to (i) refund the District's outstanding 1998 Water System Refunding Revenue Bonds, currently outstanding in the aggregate principal amount of \$29,340,000, (ii) establish a reserve fund for the Bonds, and (iii) pay the costs of issuing the Bonds.

The Bonds are being issued pursuant to an Indenture, dated as of October 1, 2009 (the "Indenture") by and between the District and the Trustee. Interest on the Bonds shall be payable on June 1 and December 1 of each year, commencing on June 1, 2010. The Bonds are special obligations of the District, payable solely from and secured by a pledge of Net Revenues, as defined herein, consisting primarily of revenues received from the operation of the District's Water System. The Bonds, when issued, will be secured by a pledge of Net Revenues on a parity with the District's obligation to make installment payments with respect to the District's outstanding Revenue Certificates of Participation (2003 Water System Project). In the Indenture, the District has covenanted that it will fix, prescribe and collect rates, fees and charges for use of the District's Water System during each fiscal year, which are at least sufficient to yield in each fiscal year Net Revenues equal to 125 percent of the Debt Service for such fiscal year, plus any amount necessary to restore the Bond Reserve Fund to the Reserve Requirement.

**The Bonds are not subject to redemption prior to maturity.**

NEITHER THE BONDS NOR THE OBLIGATION TO PAY PRINCIPAL OF OR INTEREST THEREON CONSTITUTES A DEBT OR A LIABILITY OF THE DISTRICT, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL LIMITATION ON INDEBTEDNESS, OR A PLEDGE OF THE FULL FAITH AND CREDIT OF THE DISTRICT. THE BONDS ARE SECURED SOLELY BY THE PLEDGE OF NET REVENUES AND CERTAIN FUNDS HELD UNDER THE INDENTURE. THE BONDS ARE NOT SECURED BY A PLEDGE OF THE TAXING POWER OF THE DISTRICT.

**MATURITY SCHEDULE**

Maturity (June 1)	Principal Amount	Interest Rate	Yield	CUSIP <sup>†</sup>	Maturity (June 1)	Principal Amount	Interest Rate	Yield	CUSIP <sup>†</sup>
2010	\$2,465,000	2.000%	0.32%	011125 BR1	2017	\$ 525,000	2.500%	2.20%	011125 BY6
2011	1,990,000	2.000	0.58	011125 BS9	2017	1,000,000	3.000	2.20	011125 CE9
2012	2,030,000	2.000	0.92	011125 BT7	2017	1,000,000	3.500	2.20	011125 CF6
2013	2,075,000	3.000	1.17	011125 BU4	2018	1,600,000	3.500	2.40	011125 CH2
2014	2,335,000	2.500	1.46	011125 BV2	2018	300,000	5.000	2.40	011125 BZ3
2015	1,395,000	2.500	1.72	011125 BW0	2018	700,000	2.875	2.40	011125 CG4
2015	1,000,000	3.000	1.72	011125 CC3	2019	1,690,000	3.000	2.53	011125 CA7
2016	1,455,000	2.500	1.97	011125 BX8	2019	1,000,000	3.500	2.53	011125 CJ8
2016	1,000,000	3.000	1.97	011125 CD1	2020	2,780,000	3.125	2.69	011125 CB5

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

The Bonds are offered when, as and if issued and received by the Underwriter and subject to the approval as to their legality by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the District. Certain legal matters will be passed upon for the District by Hanson Bridgett LLP, San Francisco, California. It is anticipated that the Bonds will be delivered in definitive form through DTC on or about October 14, 2009.

STONE &amp; YOUNGBERG

This Official Statement is dated October 1, 2009.

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

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

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

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

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

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

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

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

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

## **DISTRICT OFFICERS AND STAFF**

Paul A. Piraino, *General Manager*  
Wilbert L. Ligh, *Finance and Administration Manager*  
Robert T. Shaver, *Engineering Manager*  
Walter L. Wadlow, *Operations and Maintenance Manager*  
Gina H. Markou, *District Secretary*  
Michael D. Yee, *Financial Services Manager*

## **PROFESSIONAL SERVICES**

### **BOND COUNSEL**

Orrick, Herrington & Sutcliffe LLP  
San Francisco, California

### **DISTRICT COUNSEL**

Hanson Bridgett LLP  
San Francisco, California

### **VERIFICATION AGENT**

Causey, Demgen & Moore Inc.  
Denver, Colorado

### **PRICING CONSULTANT**

Backstrom McCarley Berry & Co., LLC  
San Francisco, California

### **TRUSTEE**

U.S. Bank National Association  
San Francisco, California

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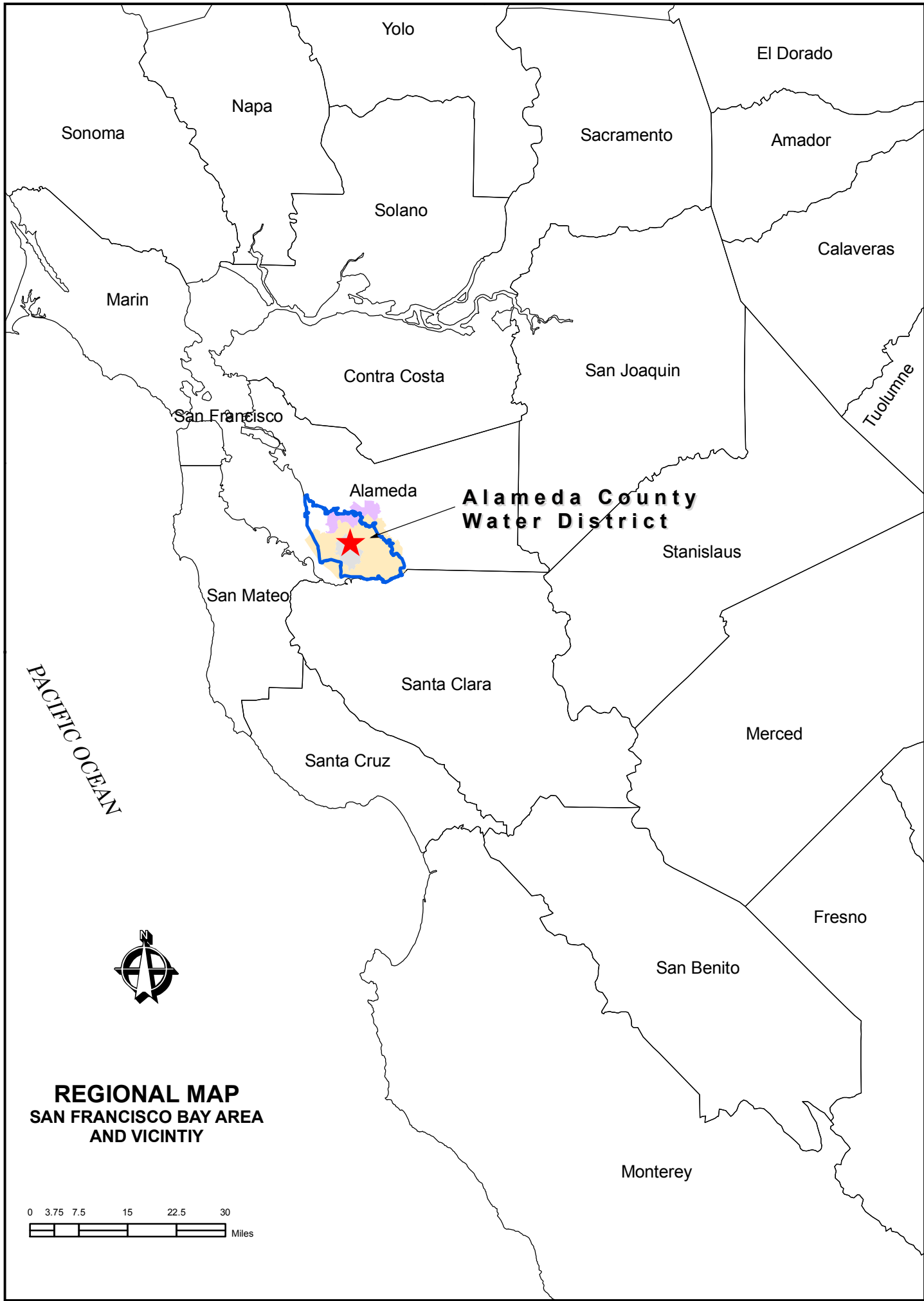
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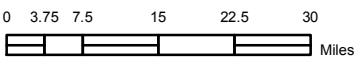
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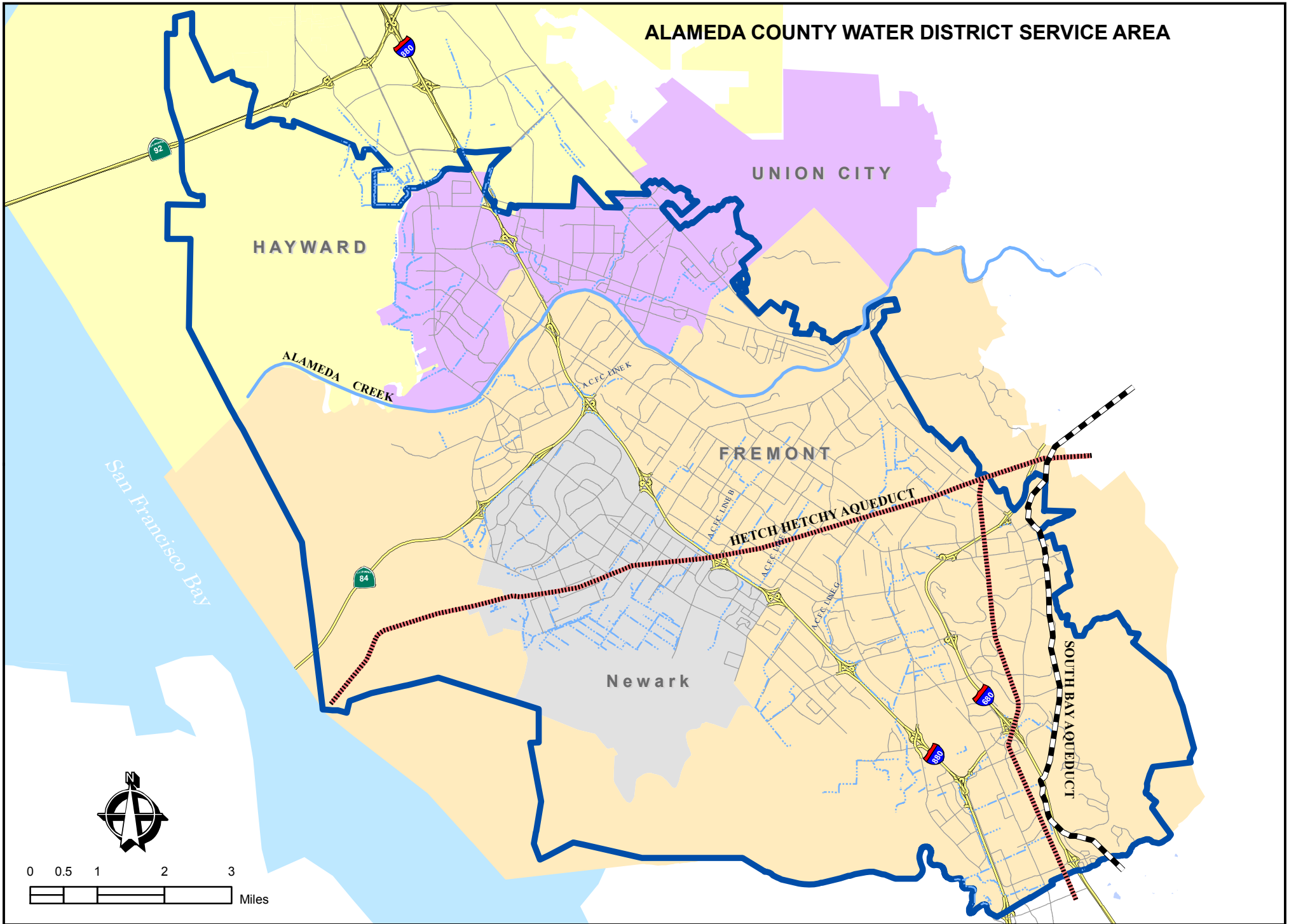
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**REGIONAL MAP**  
**SAN FRANCISCO BAY AREA**  
**AND VICINTY**



# ALAMEDA COUNTY WATER DISTRICT SERVICE AREA





## **OFFICIAL STATEMENT**

**\$26,340,000**

### **ALAMEDA COUNTY WATER DISTRICT 2009 WATER SYSTEM REFUNDING REVENUE BONDS**

This Official Statement, which includes the cover page and the appendices hereto, is provided to furnish information in connection with the sale by the Alameda County Water District (the “District”) of its 2009 Water System Refunding Revenue Bonds (the “Bonds”) in the aggregate principal amount of \$26,340,000. Certain capitalized terms used herein are defined in “APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”

## **INTRODUCTION**

*This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the Bonds to potential investors is made only by means of the entire Official Statement.*

### **Purpose and Authority for Issuance of the Bonds**

The Bonds are being issued primarily to provide funds to refund the District’s outstanding 1998 Water System Refunding Revenue Bonds, currently outstanding in the aggregate principal amount of \$29,340,000 (the “Prior Bonds”). The Prior Bonds were originally executed and delivered to provide funds to refinance the acquisition and construction of facilities for the storage, transmission and treatment of water for the District’s Water System (the “Water System”). The Indenture defines “Water System” as all facilities for the pumping, storage, transmission and treatment of water now owned by the District and all other properties, structures or works hereafter acquired and constructed by the District and determined to be a part of the Water System, together with all additions, betterments, extensions or improvements to such facilities, properties, structures or works or any part thereof hereafter acquired and constructed.

The Bonds are authorized pursuant to the provisions of Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code (commencing with Section 53570), a resolution adopted by the Board of Directors of the District on September 10, 2009 (the “District Resolution”), and an Indenture (the “Indenture”), dated as of October 1, 2009, between the District and U.S. Bank National Association, as trustee (the “Trustee”).

The proceeds from the sale of the Bonds will be used by the District (i) to refund the Prior Bonds, (ii) establish a reserve fund for the Bonds, and (iii) pay the costs of issuing the Bonds. See “THE REFUNDING PLAN” herein.

## **The District**

The District is a special district formed under California law. The District is located in southern Alameda County along the southeastern shore of San Francisco Bay in the State of California (the “State”). It includes the cities of Fremont, Newark and Union City, and serves a population of approximately 333,648 as of January 2009. The District provides water service and bears the responsibility for the groundwater supply in its service area.

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

***Indenture.*** The Bonds are payable from and secured by a (i) first pledge of and lien on Net Revenues (as hereinafter defined) received from the operation of the District’s Water System. “Net Revenues” means, for any period, an amount equal to all of the Revenues (as hereinafter defined) received during such period less the amount of Maintenance and Operation Costs becoming payable during such period. See “SECURITY FOR THE BONDS – Net Revenues; Pledge of Net Revenues.”

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

***Parity Obligations.*** Additional obligations and bonds issued or incurred on a parity with or subordinate to the Bonds may be issued pursuant to the Indenture provided that certain conditions are met. The District executed and delivered \$25,000,000 of Revenue Certificates of Participation (2003 Water System Project) in 2003 (the “2003 Certificates”). The Bonds, when issued, will be secured by a pledge of Net Revenues on a parity with the District’s obligation to make installment payments (the “2003 Installment Payments”) with respect to the 2003 Certificates. There are currently \$25,000,000 in outstanding 2003 Certificates. See “SECURITY FOR THE BONDS – Parity Obligations.”

**Neither the Bonds nor the obligation to pay principal of or interest thereon constitutes a debt of the District, the State or any of its political subdivisions within the meaning of any constitutional limitation on indebtedness, or a pledge of the full faith and credit of the District. The Bonds are secured solely by the pledge of Net Revenues of the District and certain funds held under the Indenture.**

## **Continuing Disclosure**

The District has covenanted for the benefit of owners of the Bonds to provide certain financial information and operating data relating to the District by not later than seven months after the end of the District’s fiscal year (which is currently June 30) in each year commencing with the report for the 2008-09 Fiscal Year (the “Annual Report”) and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report and notices of material events will all be filed with the Municipal Securities Rulemaking Board. These covenants have been made in order to assist the Underwriters in complying with Securities Exchange Commission Rule 15c2-12(b)(5) (the “Rule”). The specific nature of the information to be

contained in the Annual Report or the notices of material events by the District is set forth in APPENDIX C – “Form of Continuing Disclosure Agreement.” The District has not previously defaulted on any obligation to provide an annual report in accordance with the Rule with respect to any bond issue of the District.

## **THE BONDS**

### **Authority for Issuance**

The Bonds are authorized pursuant to the provisions of Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code (commencing with Section 53570), the District Resolution, and the Indenture.

### **General Provisions**

***Repayment of the Bonds.*** The Bonds will be issued as fully registered bonds in denominations of \$5,000 or any integral multiple thereof and will be dated their date of delivery. Interest on the Bonds will be payable semiannually on June 1 and December 1 of each year (each, an “Interest Payment Date”), commencing June 1, 2010, by check mailed by the Trustee on the Interest Payment Date to the person whose name appears in the registration books kept by the Trustee as the registered owner thereof as of the close of business on the fifteenth day of the month immediately preceding an interest payment date (the “Record Date”); provided, however, that payment of interest will be made by wire transfer in immediately available funds to DTC, so long as the Bonds are held in book-entry only form. Interest on the Bonds shall be calculated based on a 360-day year consisting of twelve 30-day months.

Each Bond will bear interest from the Interest Payment Date next preceding the date of registration thereof, unless such date of registration is an Interest Payment Date, in which event such Bond will bear interest from such date, or unless such date of registration is prior to the first Interest Payment Date, in which event such Bond will bear interest from its dated date.

The Bonds will initially be issued in book-entry only form, registered in the name of Cede & Co., as nominee of DTC. Purchasers of the Bonds will not receive certificates representing their interests therein, which will be held at DTC. See “THE BONDS – Book-Entry Only System.”

The Bonds will mature in the amounts and on the dates, and bear interest at the rates per annum, set forth on the cover page of this Official Statement. Principal of and premium, if any, on the Bonds are payable upon presentation and surrender of the Bonds at the principal office of the Trustee in San Francisco, California.

### **No Redemption**

The Bonds are not subject to redemption prior to maturity.

## THE REFUNDING PLAN

The Bonds are being issued to refund the District's outstanding 1998 Water System Refunding Revenue Bonds, currently outstanding in the aggregate principal amount of \$29,340,000 (the "Prior Bonds").

Proceeds of the Bonds, together with certain funds made available through the defeasance of the Prior Bonds, will be deposited pursuant to that certain Escrow Agreement, dated as of October 1, 2009 (the "Escrow Agreement"), by and between the District and U.S. Bank National Association as escrow agent (the "Escrow Agent"), and will be applied to pay the redemption price of all Prior Bonds on November 13, 2009, as well as the accrued interest to such date.

The funds deposited with the Escrow Agent will be applied to the purchase of direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States) (the "Escrow Securities"). The foregoing deposit with the Escrow Agent will result in the defeasance of the Prior Bonds, pursuant to the provisions of the financing documents under which they were delivered, as of the date of execution and delivery of the Bonds. See "VERIFICATION OF MATHEMATICAL ACCURACY."

*The Escrow Securities and other moneys held by the Escrow Agent are pledged to the payment of the Prior Bonds. Neither the principal of the Escrow Securities deposited with the Escrow Agent nor the interest thereon will be available for the payment of the Bonds.*

### Estimated Sources and Uses of Funds

The estimated sources and uses of funds are as follows:

#### **Sources:**

Par Amount of Bonds	\$26,340,000.00
Plus Original Issue Premium	1,250,844.25
Less Underwriter's Discount	(105,360.00)
Plus Funds Relating to the Prior Bonds	5,371,195.34
TOTAL SOURCES	<hr/> \$32,856,679.59

#### **Uses:**

Deposit to Refunding Fund	\$29,952,189.60
Deposit to Reserve Fund	2,759,084.43
Deposit to Costs of Issuance Fund <sup>(1)</sup>	145,405.56
TOTAL USES	<hr/> \$32,856,679.59

<sup>(1)</sup> Costs of Issuance include legal fees, pricing consultant's fees, printing costs, rating agency fees and other miscellaneous expenses.

## DEBT SERVICE REQUIREMENTS

Annual debt service on the Bonds is presented below.

<b>Period Ending (June 1)</b>	<b>Principal</b>	<b>Interest</b>	<b>Period Debt Service</b>
2010	\$ 2,465,000	\$ 456,143.89	\$ 2,921,143.89
2011	1,990,000	674,100.00	2,664,100.00
2012	2,030,000	634,300.00	2,664,300.00
2013	2,075,000	593,700.00	2,668,700.00
2014	2,335,000	531,450.00	2,866,450.00
2015	2,395,000	473,075.00	2,868,075.00
2016	2,455,000	408,200.00	2,863,200.00
2017	2,525,000	341,825.00	2,866,825.00
2018	2,600,000	263,700.00	2,863,700.00
2019	2,690,000	172,575.00	2,862,575.00
2020	2,780,000	86,875.00	2,866,875.00

## SECURITY FOR THE BONDS

### Net Revenues; Pledge of Net Revenues

The Indenture provides that the principal of the Bonds and the interest and redemption premium, if any, thereon are payable from Net Revenues. The Indenture provides for a first and exclusive lien on the Net Revenues for payment of the Bonds and for payment of all other Installment Purchase Contracts and water revenue bonds issued pursuant to the Indenture. See “SECURITY FOR THE BONDS – Parity Obligations” herein.

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

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

“Maintenance and Operation Costs” are defined in the Indenture as the reasonable and necessary costs paid or incurred by the District for maintaining and operating the Water System, determined in accordance with generally accepted accounting principles, including all costs of water purchased for the Water System (except those costs paid from taxes), and including all reasonable expenses of management and repair and all other expenses necessary to maintain and preserve the Water System in good repair and working order, and including all administrative

costs of the District that are charged directly or apportioned to the operation of the Water System, such as salaries and wages of employees, overhead, taxes (if any) and insurance premiums, and including all other reasonable and necessary costs of the District or charges required to be paid by it to comply with the terms of the Indenture and of any resolution authorizing the execution of any Installment Purchase Contract or of such Installment Purchase Contract or of any resolution or indenture authorizing the issuance of any Bonds or of such Bonds, such as compensation, reimbursement and indemnification of the trustee, seller or lessor for any such Installment Purchase Contracts or Bonds and fees and expenses of Independent Certified Public Accountants and Independent Engineers, but excluding in all cases depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles.

## **Revenue Fund**

In order to carry out and effectuate the pledge and lien of Net Revenues to payment of debt service on the Bonds, the District agrees and covenants in the Indenture that all Revenues shall be received by the District in trust under the Indenture and shall be deposited when and as received into the Alameda County Water District Water Revenue Fund (the "Revenue Fund"), which fund the District agrees and covenants to maintain so long as any Bonds remain Outstanding, and all money in the Revenue Fund shall be applied and used as set forth below.

The District is obligated under the Indenture to pay all Maintenance and Operation Costs (including amounts reasonably required to be set aside in contingency reserves for Maintenance and Operation Costs the payment of which is not then immediately required) from the Revenue Fund as they become due and payable, and all remaining money in the Revenue Fund shall be deposited by the District at the following times into the following respective special accounts in the following order of priority:

- (a) Bond Redemption Fund (which fund will be held by the Trustee); and
- (b) Bond Reserve Fund (which fund will be held by the Trustee).

All money in each of such funds shall be held in trust and shall be applied, used and withdrawn only for the purposes hereinafter authorized in this section.

On June 1 of each year, all remaining money in the Revenue Fund, after the deposits to the Bond Redemption Fund and the Bond Reserve Fund described below have been made, may be withdrawn from the Revenue Fund and deposited by the District in such fund as it may determine for expenditure for any lawful purpose of the District.

## **Bond Redemption Fund**

The Indenture provides that on or before the fifth Business Day before June 1 and December 1 of each year, beginning June 1, 2010, the District shall, from the money in the Revenue Fund, transfer to the Trustee for deposit (on a parity with the deposits for the payment of all other Installment Purchase Contracts and Bonds) in the Bond Redemption Fund a sum equal to the amount of interest becoming due under the Indenture on the next succeeding June 1 or December 1, as the case may be, and on or before the fifth Business Day before June 1 of each year, beginning June 1, 2010, the District shall, from money in the Revenue Fund, transfer to the Trustee (on a parity with the transfers for the payment of all other Debt Service) for deposit in

the Bond Redemption Fund, a sum equal to the amount of principal becoming due under the Indenture on the next succeeding June 1.

No deposit need be made in the Bond Redemption Fund if the amount available and contained therein is at least equal to the amount of interest becoming due under the Indenture on the next succeeding June 1 or December 1, as the case may be, plus the amount of principal becoming due under the Indenture on the next succeeding June 1 or any sinking fund account payment required to be made on the next succeeding June 1 into any sinking fund account, as the case may be.

All money in the Bond Redemption Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on and principal of the Bonds as such interest and principal becomes due and payable.

### **Bond Reserve Fund**

On or before the last day of each month, the District shall, from the remaining money in the Revenue Fund, thereafter transfer to the Trustee for deposit (on a parity with the deposits for the reserve funds for all other Installment Purchase Contracts and Bonds) in the Bond Reserve Fund that sum, if any, necessary to restore the Reserve Fund to an amount equal to the Reserve Requirement or to replenish any surety bond issued in lieu thereof.

The Indenture defines Reserve Requirement to be, as of any date of determination, the least of (a) ten percent (10%) of the initial offering price to the public of the Bonds, or (b) the maximum annual interest and principal payments on the Bonds payable in the current or any future one-year period ending on June 1, or (c) one hundred twenty-five percent (125%) of the average annual interest and principal payments on the Bonds payable in the current or any future one-year period ending on June 1, all as computed by the District under the Internal Revenue Code of 1986 (the "Code") and specified in writing to the Trustee.

No deposit need be made in the Bond Reserve Fund if the amount available and contained therein is at least equal to the Reserve Requirement.

All money in the Bond Reserve Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on and principal of the Bonds as such interest and principal becomes due and payable in the event the money in the Bond Redemption Fund is at any time insufficient for such purpose.

### **Rate Covenant**

The District covenants in the Indenture to fix, prescribe and collect charges, fees and rates for the use of the Water System which are at least sufficient to yield, during each fiscal year, Net Revenues equal to one hundred twenty-five percent (125%) of the Debt Service for such fiscal year, plus the amount necessary to restore the Bond Reserve Fund to the Reserve Requirement in such fiscal year. The District may make adjustments from time to time in such charges, fees and rates and may make such classification thereof as it deems necessary, but shall not reduce the charges, fees and rates then in effect unless the Net Revenues from such reduced charges, fees and rates will at all times be sufficient to meet the requirement described in the first sentence above. If for any fiscal year the District does not meet the requirements with respect to

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

### **Parity Obligations**

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

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

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

(c) The Project to be acquired and constructed with the proceeds of such Installment Purchase Contract or such Parity Bonds, as the case may be, is technically



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

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

The Bonds, when issued, will be secured by a pledge of Net Revenues on a parity with the District's obligation to make the 2003 Installment Payments with respect to the 2003 Certificates.

### **Eminent Domain Proceeds**

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

### **Insurance**

The District covenants in the Indenture to procure and maintain insurance on the Water System with responsible insurers in such amounts and against such risks (including accident to or

destruction of the Water System) as are usually covered in connection with water systems similar to the Water System so long as such insurance is available from reputable insurance companies. In the event of any damage to or destruction of the Water System caused by the perils covered by such insurance, the Net Proceeds thereof shall be applied to the reconstruction, repair or replacement promptly after such damage or destruction shall occur, and the District shall continue and properly complete such reconstruction, repair or replacement as expeditiously as possible, and shall pay out of such Net Proceeds all costs and expenses in connection with such reconstruction, repair or replacement so that the same shall be completed and the Water System shall be free and clear of all claims and liens.

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

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

### **Article XIII B**

At the statewide special election of November 6, 1979, the voters approved an initiative entitled "Limitation of Government Appropriations" which added Article XIII B to the California Constitution. Under Article XIII B, State and local governmental entities have an annual "appropriations limit" which limits the ability to spend certain monies which are called "appropriations subject to limitation" (consisting of tax revenues, State subventions and certain other funds) in an amount higher than the "appropriations." The "base year" for establishing such appropriation limit is the 1978-79 Fiscal Year and the limit is to be adjusted annually to reflect changes in population and consumer prices. Adjustments in the appropriations limit of an entity may also be made if (i) the financial responsibility for a service is transferred to another public entity or to a private entity, (ii) the financial source for the provision of services is transferred from taxes to other revenues, or (iii) the voters of the entity approve a change in the limit for a period of time not to exceed four years.

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

Certain expenditures are excluded from the appropriations limit including payments of indebtedness existing or legally authorized as of January 1, 1979, or of bonded indebtedness thereafter approved by the voters and payments required to comply with court or federal

mandates which without discretion required an expenditure for additional services or which unavoidably make the providing of existing services more costly.

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

### **Proposition 218**

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

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

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

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

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

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

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

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

- (1) Revenues derived from the fee or charge cannot exceed the funds required to provide the property related service.
- (2) Revenues derived from the fee or charge must not be used for any purpose other than that for which the fee or charge was imposed.
- (3) The amount of a fee or charge imposed upon any parcel or person as an incident of property ownership must not exceed the proportional cost of the service attributable to the parcel.
- (4) No fee or charge may be imposed for a service unless that service is actually used by, or immediately available to, the owner of the property in question. Fees or charges based on potential or future use of a service are not permitted. Standby charges, whether characterized as charges or assessments, must be classified as assessments and cannot be imposed without compliance with Section 4 of Article XIID (relating to assessments).

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

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

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

### **Future Initiatives**

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

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

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

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

### **RISK FACTORS**

The following discussion of risks is not meant to be an exhaustive list of the risks associated with the purchase of the Bonds and does not necessarily reflect the relative importance of the various risks.

## **General**

The payment of principal of and interest on the Bonds is secured solely by a pledge of the Net Revenues and certain funds under the Indenture. The realization of the Net Revenues is subject to, among other things, the capabilities of management of the District, the ability of the District to provide water services to its users, and the ability of the District to establish and maintain water fees and charges sufficient to provide the required debt service coverage as well as pay for Maintenance and Operation Costs.

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

## **Environmental Regulation**

The kind and degree of water treatment effected through the Water System is regulated, to a large extent, by the federal government and the State. Treatment standards set forth in federal and State law control the operations of the Water System and mandate its use of technology. In the event that the federal government, acting through the Environmental Protection Agency, or the State, acting through the Department of Health Services, or additional federal or State legislation, should impose stricter water quality standards upon the Water System, the District's expenses could increase accordingly and rates and charges would have to be increased to offset those expenses. It is not possible to predict the direction federal or State regulation will take with respect to drinking water quality standards, although it is likely that both will impose more stringent standards with attendant higher costs.

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

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

## **System Demand**

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

## **System Expenses**

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

## **Rate Process**

The passage of Proposition 218 by the California electorate potentially affects the District's ability to impose future rate increases, and no assurance can be given that future rate increases will not encounter majority protest opposition under Proposition 218. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS AND CHARGES – Articles XIIC and XIID of the California Constitution."

## **Investment of Funds**

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

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

## **Limitations on Remedies and Bankruptcy**

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

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

The enforcement of the remedies provided in the Indenture could prove both expensive and time consuming. In addition, the rights and remedies provided in the Indenture may be limited by and are subject to provisions of the federal bankruptcy laws, as now or hereafter enacted, and to other laws or equitable principles that may affect creditors' rights. If the District were to file a petition under Chapter 9 of the Bankruptcy Code (Title 11, United States Code), the Bondholders and the Trustee could be prohibited or severely restricted from taking any steps to enforce their rights under the Indenture.

### **Secondary Market for Bonds**

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

### **Parity Obligations**

As described in "SECURITY FOR THE BONDS – Parity Obligations" above, the Indenture permits the District to execute Installment Purchase Contracts or issue Parity Bonds, its obligations under which would be payable on a parity with the payment of debt service of the Bonds. In the event of a decline in Net Revenues available to pay debt service on the Bonds, the existence of Installment Purchase Contracts or Parity Bonds could adversely affect the District's ability to pay debt service on the Bonds. Currently, the Bonds are secured by Net Revenues on a parity with the 2003 Installment Payments. See "INTRODUCTION – Sources of Payment for the Bonds – Parity Obligations" herein.

## **DISTRICT AND WATER SYSTEM INFORMATION**

### **Background**

In 1914, the Alameda County Water District became the first agency formed under the State's County Water District Act. The District was formed originally to halt the exportation of water from the local groundwater basin and to conserve the water of Alameda Creek. Since its founding, the District has been a water conservation agency. It is responsible for the



groundwater supply underlying the cities of Fremont, Newark and Union City in southern Alameda County.

Since 1930, the District has also been a water distribution agency. From purchase of a small distribution system in Alvarado (now a part of Union City), the District has expanded to serve almost all of the area covered by its conservation activities. The District produces, stores, treats and distributes water for a population of 333,648 people in southern Alameda County. The District covers approximately 100 square miles and as of June 2009 had 80,672 customer accounts. For Fiscal Year 2008-09, average daily demand is approximately 45.3 millions of gallons per day (“mgd”) and peak demand is approximately 69.0 mgd. Currently, the maximum production rates of the District’s four water treatment plants are: Mission San Jose Water Treatment Plant (4.0 mgd), the Water Treatment Plant Number Two (21 mgd), Newark Desalination Facility (5 mgd) and Blending Facility (50 mgd) (collectively, the “Treatment Facilities”).

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

### **District Board Members**

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

Education: Bachelor of Science, Ocean Engineering from the U.S. Coast Guard Academy.

**Mr. Martin L. Koller** has served since 2000. Professional/occupational history: Electrician in the U.S. Navy from 1968 to 1972; served as a quality assurance staff member at a nuclear power plant in Minnesota from 1972 to 1974; and since 1976, employed as a Utility Mechanic with the Union Sanitary District. Volunteer service as Post-Commander of California Veterans of Foreign Wars Post 1917; member, State Committee for POW-MIA program; past President of Fremont Jaycees; past President of Fremont Pathfinders.

**Ms. Judy C. Huang** has served since 2002. Professional/occupational history: California Professional Engineer; from 1993 to 1997, a Water Resource Control Engineer and from 1997 to 2006, an Associate Water Resource Control Engineer with the California Regional Water Quality Control Board, San Francisco Bay Region; and from 2006 to the present, an Environmental Engineer/Project Manager for the U.S. Environmental Protection Agency; member of the Water Environment Federation, California Water Environment Association, Chinese American Environmental Protection Association, and Citizens for Better Community.

Education: Bachelor of Science, Chemical Engineering from University of California, Berkeley.

**Mr. Glenn R. Reynolds** was appointed in May 2009 to finish out the term of Director Arthur Lampert, who passed away in March 2009. His term of office will expire in November 2010. Professional/occupational history: Mr. Reynolds has 25 years of experience in the water industry, including service as a Manufacturing Engineer, Senior Operation Engineer, and Manager of Field Engineering for several private companies providing water purification and engineering design services, and is a member of the American Water Works Association. Since 1993 he has been the owner and principal of Water Solutions, Inc., a private consulting firm specializing in industrial and municipal water systems.

Education: Bachelor of Science, Physics from Antioch College in Yellow Springs, Ohio.

**Mr. John H. Weed** has served since 1995. Professional/occupational history: Attorney/Property Development. Military experience as an engineer and water utility consultant with the United States Air Force on installations worldwide (Vietnam veteran and Civil Engineer Officer – retired as a Colonel with the U.S. Air Force Reserves); previously employed as an Engineer Technician with the Santa Clara Valley Water District and as a Financial Planner with FMC Corporation. Currently serves as a Trustee of the Fremont-Newark Community College District (since 1977) and as a Board member of the Bay Area Water Supply and Conservation Agency. Active member of the California State Bar Association and the Association of California Water Agencies (since 1995), including service as an ACWA Region 5 Board Member.

Education: Bachelor of Science in Civil Engineering, University of Santa Clara; Master of Business Administration in Finance, Eastern New Mexico University; doctoral level graduate studies, Water Resource Administration, University of Arizona; and Juris Doctor degree, University of Santa Clara.

## **District Staff**

**Mr. Paul A. Piraino, General Manager**, has been with the District since 1982. He was Personnel/Industrial Relations Manager from 1982 to 1988. In 1988, he became Manager of Administration. He was promoted to Assistant General Manager in 1994. The Board of Directors appointed him General Manager in 1997. Mr. Piraino served as Personnel Director for the City of Daly City from 1981 to 1982 and as Personnel Officer for the Alameda County Social Services Agency from 1979 to 1981. He is a member of the American Water Works Association, Association of California Water Agencies, past chairman of the Bay Area Water Resources Council and the Alameda County Special Districts Association, current chair of the Northern California Salinity Coalition and past chair of the California Urban Water Agencies.

Mr. Piraino has a B.A. in History from Kenyon College, and his M.P.A. from City University, Washington.

The Board of Directors has appointed Walter L. Wadlow to succeed Mr. Piraino as General Manager in January 2010. Mr. Wadlow currently serves as Operations and Maintenance Manager, as described below.

**Mr. Robert T. Shaver, Engineering Manager**, has been with the District since 1991. He was a Project Manager from 1991 to 2000. He was promoted to Development Services Supervisor/Manager in 2000 and Engineering Manager in 2003. Prior to joining the District, Mr.

Shaver was a Project Engineer for the Suffolk County Water Authority and Manuel Elken Co. in New York. He is a member of the American Water Works Association and the American Society of Civil Engineers.

Mr. Shaver holds a B.S. in Civil Engineering from Virginia Polytechnic Institute and State University and is a registered professional engineer in California.

**Mr. Walter L. Wadlow, Operations and Maintenance Manager**, has served as Operations and Maintenance Manager since November 2007. Prior to joining the District, Mr. Wadlow worked for 25 years in various engineering and managerial positions for the Santa Clara Valley Water District, serving the last 11 years as Chief Operating Officer/Assistant General Manager for the water utility there. He has also served as President of the State Water Project Contractors Association, and he currently serves on the Association of California Water Agencies State Legislative Committee. Commencing in January 2010, Mr. Wadlow will succeed Mr. Paul A. Piraino as General Manager of the District.

Mr. Wadlow holds a B.S. in Civil Engineering and an M.S. in Water Resources Engineering from Stanford University and is a registered professional engineer in California.

**Mr. Wilbert L. Ligh, Finance and Administration Manager**, has been with the District since 1980. He was a Senior Accountant/Budget Analyst from 1980 to 1993. He was promoted to Financial Services Supervisor in 1993 and to Accounting Manager in 1994. In 2006 he was appointed to Finance and Administration Manager. Mr. Ligh was a Supervising Accountant for the Fremont Municipal Court from 1976 to 1980. He is a member of the Government Finance Officers Association, American Water Works Association, California Municipal Treasurers Association and California Society of Municipal Finance Officers.

Mr. Ligh has a B.S. in Accounting from the University of California, Berkeley.

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

Mr. Yee is a Registered Professional Engineer in the State of California. He has also been published in the AWWA Journal. Mr. Yee has a B.S. in Electrical Engineering & Computer Sciences, University of California, Berkeley, and an M.B.A in Finance, California State University, Hayward.

## **District Employees**

The District has a staff of 217 full-time employees of which 83 are management, confidential and professional ("MCP") employees. The District's non-MCP employees are represented by one labor organization. Operating Engineers Local No. 3 of the AFL-CIO, represents 134 of the District's employees in the Finance, Operations, and Engineering departments. Wages, benefits, and conditions of employment are covered by a memorandum of understanding with Operating Engineers Local No. 3.

## **Water Supply**

The District's current water production is approximately 51,000 acre-feet per year. Water is provided from four sources: groundwater from the Niles Cone Groundwater Basin (including fresh groundwater from two well fields and desalination of brackish groundwater); surface water from the Del Valle Reservoir; water imported from the State Water Project; and water imported from the San Francisco Regional Water System. The amount of water available from these sources is variable in any given year due to hydrologic conditions and other factors. Assuming wet local conditions and full delivery of imported water supplies, these four sources provide up to a maximum of approximately 90,000 acre-feet per year.

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

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

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

### **San Francisco Regional Water System**

The District has a 25-year contract, running through 2034, with San Francisco which provides up to 15,300 acre feet per year from the San Francisco Regional Water System, which can be, and has been, reduced at San Francisco's discretion in times of drought. The supply is predominantly from the Sierra Nevada/Hetch Hetchy system but also includes treated water produced by San Francisco from its facilities in the Alameda Creek watershed. The District is one of 26 wholesale customers that have collectively contracted with San Francisco for about 184 mgd. This water does not require treatment by the District other than the addition of fluoride.

### **State Water Project**

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

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

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

### **Local Runoff**

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

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

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

### **Environmental Compliance**

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

## Water System Accounts

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

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

<b>Fiscal Year Ending June 30</b>	<b>Number of Meters</b>
1999	75,505
2000	76,629
2001	77,463
2002	77,873
2003	78,194
2004	78,402
2005	78,760
2006	79,211
2007	79,620
2008	80,326
2009	80,672

Source: Alameda County Water District.

Table 2 sets forth the District's largest distribution service accounts as of June 30, 2009 estimated according to annualized calendar year billings.

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

	<b>Calendar Year 2008 Water Revenues</b>
Fremont Unified School District	\$612,500
City of Fremont	606,700
Prologis Trust	578,300
New United Motor Manufacturing, Inc. *	566,000
City of Union City	382,800
Western Digital Technologies	345,500
Newark Unified School District	338,900
Contempo Homeowners Association	292,100
Equity Residential Properties Trust	279,600
City of Newark	234,600

\* New United Motor Manufacturing, Inc. ("NUMMI") is a joint venture of General Motors and Toyota. In June 2009, GM announced its intention to pull out of the joint venture and halt production of GM vehicles at the NUMMI plant as part of its bankruptcy restructuring. As of the date of this Official Statement, the plant continues to produce Toyota vehicles. However, Toyota has recently announced its intention to discontinue all production at the NUMMI facility as of March 2010. The District does not expect that the closure of the NUMMI will have a material adverse impact on the finances or operations of the District.

Source: Alameda County Water District.

## Rates and Charges

Table 3 sets forth the District's current bi-monthly water charge based on 25 hundred cubic feet of consumption.

**TABLE 3**  
**ALAMEDA COUNTY WATER DISTRICT**  
**Water Rates**  
**(Effective February 1, 2009)**

Bi-monthly Commodity Charge	\$63.28
Bi-monthly Service Charge	10.68
<b>TOTAL</b>	<b>\$73.96</b>

Source: Alameda County Water District.

## Comparative Rates

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

**TABLE 4**  
**ALAMEDA COUNTY WATER DISTRICT**  
**Bi-Monthly Residential Service Charges**  
**For the District and Other Bay Area Agencies**  
**February 2009 <sup>(1)</sup>**

<b>Agency</b>	<b>Bi-monthly Commodity Charge <sup>(2)</sup></b>	<b>Bi-monthly Service Charge</b>	<b>Total</b>
City of Burlingame	\$ 98.20	\$54.02	\$152.22
North Coast County Water District	125.97	24.30	150.27
City of Millbrae	98.75	23.60	122.35
California Water Services Co. – Bear Gulch	84.18	37.36	121.54
Contra Costa Water District	67.98	51.44	119.42
City of San Bruno	95.75	22.76	118.51
City of Palo Alto	117.15	0.00	117.15
Mid-Peninsula Water District	94.47	20.39	114.86
California Water Services Co. – Los Altos	68.27	37.32	105.59
California Water Services Co. – South SF	72.48	31.95	104.43
California Water Services Co. – Mid-Peninsula	77.13	26.25	103.38
California Water Services Co. – Livermore	66.47	32.23	98.70
City of Livermore	61.53	37.00	98.53
City of Redwood City	64.00	33.06	97.06
Marin Municipal Water District	76.00	20.77	96.77
Dublin San Ramon Services District	71.00	24.00	95.00
San Francisco Water Department (SFPUC)	81.78	13.20	94.98
San Jose Water Company	59.57	30.80	90.37
City of Daly City	70.95	19.07	90.02
North Marin Water District - Novato	75.50	13.20	88.70
City of Hayward	69.30	12.20	81.50
East Bay Municipal Utility District	55.28	24.06	79.34
City of East Palo Alto (American Water)	60.25	18.58	78.83
City of Mountain View	67.71	10.10	77.81
City of Foster City (Estero)	43.25	33.70	76.95
Alameda County Water District	63.28	10.68	73.96
City of Milpitas	49.45	21.85	71.30
San Jose Municipal Water	52.69	17.72	70.41
City of Sunnyvale	56.97	13.28	70.25
City of Santa Clara	62.50	0.00	62.50
City of Pleasanton	38.75	23.55	62.30

<sup>(1)</sup> Rates shown for non-District agencies are those currently in effect as of September 2009.

<sup>(2)</sup> Based on 25 hundred cubic feet (ccf).

Source: Alameda County Water District.



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

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

<b>Fiscal Year</b>	<b>Amount (000's)</b>
1999-00	\$7,016
2000-01	8,662
2001-02	3,177
2002-03	1,982
2003-04	1,849
2004-05	3,864
2005-06	3,589
2006-07	3,276
2007-08	3,874
2008-09*	5,703

\* Unaudited  
Source: Alameda County Water District.

In Fiscal Year 2008-09 water revenues were divided industrial \$4,755,740; commercial \$7,156,715; residential \$40,581,150; and miscellaneous \$4,284,395.

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

**TABLE 6**  
**ALAMEDA COUNTY WATER DISTRICT**  
**Statements of Net Assets**  
**Fiscal Years Ending June 30**

	2006 <sup>(1)</sup>	2007 <sup>(1)</sup>	2008 <sup>(1)</sup>	2009 <sup>(2)</sup>
<b>ASSETS</b>				
Current assets:				
Cash and Investments	\$ 71,324,700	\$ 84,406,600	\$ 95,583,800	\$ 91,685,200
Customer and other accounts receivable, net	4,734,400	4,286,900	3,761,100	4,446,600
Accrued unbilled revenue	3,948,100	5,520,500	6,094,600	7,276,600
Taxes receivable	–	419,800	407,300	–
Grant receivable	40,100	99,200	85,000	1,120,200
Interest receivable	687,100	886,800	1,175,200	975,600
Materials and supplies	1,711,200	1,737,100	1,942,700	2,803,800
Prepaid items	117,400	18,500	72,700	92,000
Total unrestricted assets	<u>82,563,000</u>	<u>97,375,400</u>	<u>109,122,400</u>	<u>108,400,000</u>
Restricted cash and investments	<u>8,000,900</u>	<u>8,008,100</u>	<u>7,882,100</u>	<u>7,914,600</u>
Total current assets	<u>90,563,900</u>	<u>105,383,500</u>	<u>117,004,500</u>	<u>116,314,600</u>
Noncurrent assets:				
Polybutylene settlement receivables, long-term portion	1,004,900	1,004,900	531,700	273,600
Supplemental water supply storage	20,338,000	21,693,100	23,335,900	24,885,100
Debt issuance costs	882,300	833,800	785,300	736,800
Other post-employment benefits, long-term asset <sup>(3)</sup>	–	–	–	2,408,100
Capital assets:				
Nondepreciable	40,779,700	44,561,800	52,464,600	59,009,600
Depreciable, net	268,869,300	266,437,500	262,063,900	263,994,700
Total capital assets	<u>309,649,000</u>	<u>310,999,300</u>	<u>314,528,500</u>	<u>323,004,300</u>
Total noncurrent assets	<u>331,874,200</u>	<u>334,531,100</u>	<u>339,181,400</u>	<u>351,307,900</u>
<b>TOTAL ASSETS</b>	<u>422,438,100</u>	<u>439,914,600</u>	<u>456,185,900</u>	<u>467,622,500</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable and accrued expenses	4,291,000	4,051,300	4,825,700	6,320,900
Accrued payroll and related liabilities	2,177,500	2,229,000	2,374,200	2,865,900
Contractor and customer deposits	2,424,600	4,234,400	6,046,700	4,222,100
Interest payable	232,900	227,000	220,600	213,900
Deferred Revenue	448,500	225,000	220,100	285,600
Long-term debt – due within one year	1,828,800	1,898,800	1,816,100	1,896,300
Total current liabilities	<u>11,403,300</u>	<u>12,865,500</u>	<u>15,503,400</u>	<u>15,804,700</u>
Long-term liabilities				
Long-term debt – due in more than one year	<u>56,140,000</u>	<u>54,398,900</u>	<u>52,740,500</u>	<u>50,844,200</u>
Total long-term liabilities	<u>56,140,000</u>	<u>54,398,900</u>	<u>52,740,500</u>	<u>50,844,200</u>
<b>TOTAL LIABILITIES</b>	<u>67,543,300</u>	<u>67,264,400</u>	<u>68,243,900</u>	<u>66,648,900</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	252,840,000	255,535,400	260,757,200	271,000,500
Restricted for debt service	7,768,000	7,781,100	7,661,600	7,700,700
Held in trust for other post-employment benefits <sup>(3)</sup>	–	–	–	2,408,100
Unrestricted	94,286,800	109,333,700	119,523,200	119,864,300
<b>TOTAL NET ASSETS</b>	<u>\$ 354,894,800</u>	<u>\$ 372,650,200</u>	<u>\$ 387,942,000</u>	<u>\$ 400,973,600</u>

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

<sup>(2)</sup> Source: District Estimated Unaudited Results.

<sup>(3)</sup> Governmental Accounting Standards Board Statement No. 45 ("GASB 45") is effective for the District's fiscal year ending June 30, 2009. To fund its other post-employment benefit ("OPEB") obligations, the District adopted a self-administered OPEB Trust Account in March 2009. For further details, see "– Funding of Other Post-Employment Benefits" herein. Amounts reflecting for Fiscal Year 2008-09 represents the value of the assets in the trust as of such date.

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

	2006 <sup>(1)</sup>	2007 <sup>(1)</sup>	2008 <sup>(1)</sup>	2009 <sup>(2)</sup>
<b>OPERATING REVENUES</b>				
Water Sales:	\$ 53,355,400	\$ 57,285,000	\$ 58,087,000	\$ 56,777,700 <sup>(3)</sup>
Facilities connection charges	3,589,200	3,276,100	3,873,500	5,703,100
Fees and rental	863,100	3,077,200	1,063,500	819,300
Other	1,099,900	943,900	1,026,700	757,100
<b>TOTAL OPERATING REVENUES</b>	<b>58,907,600</b>	<b>64,582,200</b>	<b>64,050,700</b>	<b>64,057,200</b>
<b>OPERATING EXPENSES:</b>				
Source of supply:				
Water purchases	9,615,500	12,985,200	14,210,500	14,129,100
Pumping	2,617,100	2,665,600	2,573,900	2,583,400
Other	6,001,900	6,302,900	6,783,300	7,180,200
Total sources of supply	18,234,500	21,953,700	23,567,700	23,892,700
Water treatment	9,935,900	9,732,300	10,097,300	11,022,300
Transmission and distribution	9,752,700	10,310,600	10,088,900	11,284,600
Administration of customer accounts	957,300	1,055,700	1,076,100	1,163,100
Administration and general	5,309,500	5,286,400	6,209,700	7,604,600
Depreciation and amortization	10,402,000	10,698,200	10,810,700	10,793,900
<b>TOTAL OPERATING EXPENSES</b>	<b>54,591,900</b>	<b>59,036,900</b>	<b>61,850,400</b>	<b>65,761,200</b>
<b>OPERATING INCOME (LOSS)</b>	<b>4,315,700</b>	<b>5,545,300</b>	<b>2,200,300</b>	<b>(1,704,000)</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>				
Investment Income	2,524,300	4,536,800	5,343,900	4,031,500
Property taxes	2,574,800	5,819,800	6,657,400	7,380,600
Gain on disposal of plant assets	235,600	52,100	26,000	(67,100)
Interest expense	(3,062,400)	(2,994,500)	(2,923,300)	(2,846,600)
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>2,272,300</b>	<b>7,414,200</b>	<b>9,104,000</b>	<b>8,498,400</b>
Capital contributions	4,184,500	4,795,900	3,987,500	6,237,200
<b>INCREASE IN NET ASSETS</b>	<b>10,772,500</b>	<b>17,755,400</b>	<b>15,291,800</b>	<b>13,031,600</b>
<b>NET ASSETS</b>				
Beginning of year	344,122,300	354,894,800	372,650,200	387,942,000
End of year	<u>\$354,894,800</u>	<u>\$372,650,200</u>	<u>\$387,942,000</u>	<u>\$400,973,600</u>

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

<sup>(2)</sup> Source: District Estimated Unaudited Results.

<sup>(3)</sup> Water revenue was anticipated to be less in Fiscal Year 2008-09 due to a combination of factors including the economic downturn, dry weather conditions and water conservation efforts. Water revenue is projected to increase by about 2.0% over each of the next two years due to growth in demand. These lower water use projections were included in the February 1, 2009 water rate increase and were also reflected in the District's long-range financial planning model.

Table 8 sets forth historical and projected revenues and expenses and debt service coverage based on the annual debt service for the Prior Bonds, the 2003 Certificates and the Bonds.

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

	ACTUAL						PROJECTED			
	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
<b>Revenues</b>										
Water Sales	\$48,350	\$47,469	\$53,355	\$57,285	\$58,087	\$56,778	\$63,555	\$68,229	\$73,809	\$77,872
Investment Income	1,162	1,608	2,524	4,537	5,344	4,031	2,576	2,281	1,795	1,923
Property Taxes <sup>(1)</sup>	4,849	1,778	2,575	5,820	6,657	7,381	7,348	7,644	7,967	8,100
Development Fees	1,849	3,864	3,589	3,276	3,873	5,703	4,077	4,121	4,428	4,972
Other Revenue	3,301	3,691	1,963	4,021	2,090	1,576	17,079 <sup>(5)</sup>	2,229	2,904	4,864
<b>TOTAL REVENUES</b>	<b>\$59,511</b>	<b>\$58,410</b>	<b>\$64,006</b>	<b>\$74,939</b>	<b>\$76,051</b>	<b>\$75,469</b>	<b>\$94,635</b>	<b>\$84,504</b>	<b>\$90,903</b>	<b>\$97,731</b>
<b>Operating Expenses</b>										
Power Costs	\$ 2,604	\$ 2,980	\$ 2,617	\$ 2,666	\$ 2,574	\$ 2,583	\$ 3,276	\$ 3,407	\$ 3,543	\$ 4,029
Other Operating Expenses <sup>(2)</sup>	8,131	6,869	7,337	7,816	8,247	10,719	11,109	11,482	12,190	12,453
Labor Costs <sup>(3)</sup>	21,577	22,974	24,475	24,685	25,854	27,448	30,426	32,322	33,910	35,374
Purchased Water <sup>(4)</sup>	9,532	9,529	9,616	12,985	14,211	14,129	15,477	17,545	19,943	23,639
Aquifer Reclamation Costs	91	35	147	187	154	88	67	68	64	66
<b>TOTAL EXPENSES</b>	<b>\$41,935</b>	<b>\$42,387</b>	<b>\$44,192</b>	<b>\$48,339</b>	<b>\$51,040</b>	<b>\$54,967</b>	<b>\$60,355</b>	<b>\$64,824</b>	<b>\$69,650</b>	<b>\$75,561</b>
<b>NET REVENUES</b>	<b>\$17,576</b>	<b>\$16,023</b>	<b>\$19,814</b>	<b>\$26,600</b>	<b>\$25,011</b>	<b>\$20,502</b>	<b>\$34,280</b>	<b>\$19,680</b>	<b>\$21,253</b>	<b>\$22,170</b>
<b>Debt Service</b>										
1998 Refunding Revenue Bonds	\$3,353	\$3,355	\$3,358	\$3,361	\$3,360	\$3,359	\$682	—	—	—
2003 Certificates of Participation	638	1,203	1,203	1,203	1,203	1,203	1,203	\$1,203	\$1,203	\$1,203
2009 Refunding Revenue Bonds	—	—	—	—	—	—	2,921	2,664	2,664	2,669
<b>TOTAL PARITY DEBT SERVICE</b>	<b>\$3,991</b>	<b>\$4,558</b>	<b>\$4,561</b>	<b>\$4,564</b>	<b>\$4,563</b>	<b>\$4,562</b>	<b>\$4,806</b>	<b>\$3,867</b>	<b>\$3,867</b>	<b>\$3,872</b>
<b>DEBT SERVICE COVERAGE</b>	<b>4.40x</b>	<b>3.52x</b>	<b>4.34x</b>	<b>5.83x</b>	<b>5.48x</b>	<b>4.49x</b>	<b>7.13x</b>	<b>5.09x</b>	<b>5.50x</b>	<b>5.73x</b>
<b>NET CASHFLOW REMAINING</b>	<b>\$13,585</b>	<b>\$11,465</b>	<b>\$15,253</b>	<b>\$22,036</b>	<b>\$20,448</b>	<b>\$15,940</b>	<b>\$29,474</b>	<b>\$15,813</b>	<b>\$17,386</b>	<b>\$18,298</b>

<sup>(1)</sup> Includes the effects of the 85% State take-away of ad-valorem tax revenues for years 2005 and 2006. This table demonstrates historical and projected debt service coverage taking into account the inclusion of property taxes collected by the District, while also taking into account expenses paid from such taxes. As discussed in "SECURITY FOR THE BONDS – Net Revenues; Pledge of Net Revenues" above, the Bonds are secured by a pledge of Net Revenues (defined generally as Revenues less Maintenance and Operation Costs). Property tax receipts are excluded from the definition of Revenues. However, costs paid from taxes are also excluded from the definition of Maintenance and Operation Costs. Therefore, the presentation of debt service coverage above is consistent with the requirements of the Indenture.

<sup>(2)</sup> Includes annual inflationary increase of 3.00% beginning in 2010.

<sup>(3)</sup> Includes fringe benefits and annual inflationary increases as relevant beginning in 2010.

<sup>(4)</sup> Per contract schedule.

<sup>(5)</sup> Includes certain one-time grants, reimbursements of shared projects, property sales, and a mitigation payment.

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

## Pension Plan Obligations

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

**Funding Policy.** Active plan members are required by State statute to contribute 8% of their annual covered salary. Effective on January 1, 2009, the District paid 1.5% of the 8% member contributions for Management, Confidential and Professional employees which amounted to \$69,100. This employer paid member contribution percentage increased from 1.5% to 2.5% on July 1, 2009. The District was required to contribute for Fiscal Years 2009 and 2008 at an actuarially determined rate of 19.210% and 19.138% of annual covered payroll for the District's employees, which amounted to \$3,481,100 and \$3,209,700 for the years ended June 30, 2009 and 2008.

**Annual Pension Cost.** For Fiscal Year 2009, the District's annual pension cost of \$3,481,100 for CalPERS was equal to the District's required and actual contributions. The required contribution was determined as part of the June 30, 2007 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases ranging from 3.25% to 14.45% and (c) 3.25% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.0%. The actuarial value of CalPERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a fifteen-year period. CalPERS unfunded actuarial accrued liability (or surplus) is being amortized as a level percentage of projected payroll on a closed basis. The average amortization period for current service unfunded liability at June 30, 2007 was 30 years.

Fiscal Year Ended (June 30)	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2007	\$3,132,900	100%	—
2008	3,209,700	100	—
2009	3,481,100	100	—

**Funding Status as of the Most Recent Actuarial Date.** The table below represents the District's funding status as reported by CalPERS.

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Liability (UAAL)/ Excess Assets	Funded Ratio	Annual Covered Payroll	(UAAL)/ Excess Assets As Percentage of Covered Payroll
6/30/2006	\$116,680,060	\$ 95,041,054	(\$21,639,006)	(81.5%)	\$16,322,560	(132.6%)
6/30/2007	126,703,448	104,872,713	(21,830,735)	(82.8%)	15,948,851	(136.9%)

Actuarial valuations for June 30, 2008 are not available.

***Internal Revenue Code Section 401(a) Plan.*** Effective January 1, 1997, the District established and administered the District 401(a) Plan (the “401(a) Plan”), a defined contribution plan. The 401(a) Plan provides tax-deferred retirement benefits to District employees. The employees vest upon joining the 401(a) Plan. The District has agreed to contribute to the employee’s accounts, up to a specified amount, to match the employees’ contributions to the District’s 457(b) Plan, an eligible deferred compensation plan. The District contributed \$55,500 and \$55,600 to the 401(a) Plan in Fiscal Years 2009 and 2008, respectively, as required under the District’s Management, Confidential and Professional (“MCP”) employee compensation schedule. Effective January 1, 2004, the District’s matching calendar year contribution to the 401(a) Plan for non-MCP employees was discontinued, in accordance with the Memorandum of Understanding for United Public Employees Local 1021, then in effect.

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

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

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

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

Longevity Payment for Employees Hired On or After August 1, 2002. The District shall make a longevity payment on a monthly basis into the Retiree HRA Trust for employees hired on or after August 1, 2002, who retire from the District and receive District-provided retiree

coverage under PEMHCA. The District's longevity payment for these employees shall be based on the employee's completed years of credited service with the District and CalPERS as described below.

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

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

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

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

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



surviving spouse or registered domestic partner, or upon the surviving spouse or registered domestic partner's death if these should succeed the retiree.

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

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

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

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

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

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

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

District and be minimum age 50 at retirement in order to receive this retiree dental and vision benefit.

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

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

***Survivor Benefits.*** The District provides health care benefits as described above for the surviving spouse and eligible dependents of a retiree so long as they meet the eligibility requirements. A total of 164 and 164 retirees participated in the plan as of June 30, 2009 and 2008, respectively.

***General OPEB Costs.*** The cost of post-employment health care and life benefits is recognized as claims are paid. For the years ended June 30, 2009 and 2008, expenses of approximately \$1,545,300 and \$1,447,300, respectively, were recognized for post-employment health care and life insurance benefits.

***Funding of Other Post-Employment Benefit Obligations.*** Governmental Accounting Standards Board Statement No. 45 ("GASB 45") is effective for the District's fiscal year ending June 30, 2009. It requires that non-pension, post-employment benefits for retirees, such as post-retirement health care benefits, be shown as an accrued actuarial liability in the audit, similar to the current treatment of pension benefits. GASB 45 requires only the identification and disclosure of the District's unfunded accrued actuarial liability ("UAAL") and funding status; it does not require the District or any other affected public agency to fully fund such liability. The District has undertaken an actuarial study to estimate its other post-employment benefit obligations ("OPEB Obligations") as of June 30, 2007. Such study, updated through April 2009 for new assumptions, changes in discount rates and health benefits, indicates that the District has a current UAAL of approximately \$33.2 million. In March 2009, the District adopted a self-administered OPEB Trust Account to fund its OPEB Obligations. In June 2009, the District pre-funded \$3,496,000 of its UAAL into this Trust Account. This amount is net of the District's fiscal year 2008-09 retiree other post-employment benefit payments of \$1,504,000 and exceeds the annual required contribution ("ARC") of \$2,592,000. The District intends to annually fund the full ARC to minimize its OPEB Obligation costs which precludes the recognition of any liability on the District's financial statements as provided under GASB 45. The District has also taken steps to further reduce its overall OPEB Obligations in the future. Employees hired after January 1, 2009 will receive credit for other post-employment benefits based on a different formula for years of service and a lower premium contribution benchmark. In addition, the District intends to transfer its accumulated OPEB assets into a third party retiree benefit trust account with higher earning potential once the market outlook begins to improve.

## TAX MATTERS

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 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”) and interest on the Bonds is exempt from State of California personal income taxes. Bond Counsel is also of the opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings in calculating corporate alternative minimum taxable income. Bond Counsel expects to deliver an opinion at the time of issuance of the Bonds substantially in the form set forth in Appendix E hereto.

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

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

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal tax purposes of interest on obligations such as the Bonds. The District has made certain representations and covenanted to comply with certain restrictions designed to ensure that interest on the Bonds will not be included in federal gross

income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of issuance of the Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with such other actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and that the interest on the Bonds is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a Beneficial Owner's federal or state tax liability. The nature and extent of these other tax consequences will depend 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.

Future legislation, if enacted into law, or clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislation or clarification of the Code or court decisions may also affect the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation, as to which Bond Counsel expresses no opinion.

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

The IRS has an ongoing program of auditing tax-exempt obligations to determine whether, in the view of the IRS, interest on such tax-exempt obligations is includable in the gross income of the owners thereof for federal income tax purposes. Bond Counsel's engagement with respect to the Bonds ends with the execution and delivery of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the District or the Beneficial Owners regarding the tax-exempt status of the Bonds 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 bonds is difficult, obtaining an independent review of IRS positions with which the District legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of

bonds or certificates of participation presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the District or the Beneficial Owners to incur significant expense.

### **CERTAIN LEGAL MATTERS**

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

### **LITIGATION**

To the best knowledge of District Counsel, there is no action, suit, proceeding or investigation at law or in equity before or by any court, public board or body, pending with respect to which the District has been served with process or threatened against or affecting the District, which would adversely impact the District's ability to complete the transaction described in or contemplated by the Indenture or this Official Statement, to restrain or enjoin its collection of the Revenues of the District or any payments under the Indenture, or in any way contesting or affecting the validity of the Bonds, the Indenture or the transactions described in this Official Statement.

### **RATINGS**

Moody's Investors Service ("Moody's") and Standard & Poor's, a Division of the McGraw-Hill Companies ("S&P"), have assigned their municipal bond rating of "Aa3" and "AAA", respectively, to the Bonds.

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

### **UNDERWRITING**

The Bonds are being purchased by Stone & Youngberg LLC (the "Underwriter"). The Underwriter has agreed to purchase the Bonds at a price of \$27,485,484.25 (which price is equal to the aggregate principal amount of the Bonds, plus an original issue premium of \$1,250,844.25, less an Underwriter's discount of \$105,360.00). The Bond Purchase Contract pursuant to which the Underwriter has agreed to purchase the Bonds provides that the Underwriter will purchase all of the Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Bond Purchase Contract, including the approval of certain legal matters by counsel and certain other conditions.

The Underwriter intends to offer the Bonds to the public at the offering prices set forth on the cover page of this Official Statement. The Underwriter may offer and sell to certain dealers and others at a price lower than the offering prices stated on the cover page hereof. The offering price may be changed from time to time by the Underwriter.

#### **VERIFICATION OF MATHEMATICAL ACCURACY**

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

The report of Causey, Demgen & Moore Inc. will include the statement that the scope of its engagement is limited to verifying the mathematical accuracy of the computations contained in such schedules provided to it, and that it has no obligation to update its report because of events occurring, or data or information coming to its attention, subsequent to the date of its report.

## MISCELLANEOUS

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

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

The Appendices are an integral part of this Official Statement and must be read together with all other parts of this Official Statement. The audited financial statements of the District, including a summary of significant accounting policies, for the fiscal year ended June 30, 2008 are contained in Appendix B.

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

ALAMEDA COUNTY WATER DISTRICT

By                     /s/ Paul A. Piraino                      
General Manager

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## **APPENDIX A**

### **SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE**

#### DEFINITIONS OF CERTAIN TERMS

The following are definitions of certain terms used in the Indenture:

“Accountant’s Report” means a report signed by an Independent Certified Public Accountant.

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

“Bond Redemption Fund” means the Alameda County Water District 2009 Water System Refunding Revenue Bonds Bond Redemption Fund established under the Indenture.

“Bond Reserve Fund” means the Alameda County Water District 2009 Water System Refunding Revenue Bonds Bond Reserve Fund established under the Indenture.

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

“Bond Year” means (i) with respect to the initial Bond Year, the period commencing on the date the 2009 Bonds are originally issued and delivered and ending on the next succeeding June 1, and (ii) thereafter, the twelve (12)-month period commencing on June 1 of each calendar year and ending on the June 1 of the next succeeding calendar year; provided, that the term Bond Year when used for arbitrage rebate calculations has the meaning set forth in the Tax Certificate.

“Business Day” means any day (other than a Saturday or a Sunday) on which banks in New York, New York, are open for business and on which the Trustee is open for business at its Principal Corporate Trust Office.

“Certificate of the District” means an instrument in writing signed by the General Manager of the District or by the Finance and Administration Manager of the District, or by any other officer of the District duly authorized by the Board of Directors for that purpose.

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

“Costs of Issuance” means all costs and expenses directly or indirectly payable by or reimbursable to the District related to the authorization, sale, execution and initial delivery of the 2009 Bonds, including, but not limited to, costs of preparation and reproduction of documents, filing and recording fees, initial fees and charges of the Trustee and the Escrow

Agent (including fees and expenses of their counsel), rating agency fees, legal fees and charges and fees and charges of other consultants and professionals, together with all fees and charges for preparation, execution and safekeeping of the 2009 Bonds, and any other cost, charge, fee or expense in connection with the authorization, sale, execution and initial delivery of the 2009 Bonds.

“Costs of Issuance Fund” means the Alameda County Water District 2009 Water System Refunding Revenue Bonds Costs of Issuance Fund established under the Indenture.

“Date of Operation” means, with respect to any uncompleted Project, the estimated date by which such Project will have been completed and, in the opinion of an Independent Engineer, will be ready for use and operation by the District.

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

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

“Engineer’s Report” means a report signed by an Independent Engineer.

“Escrow Agent” means U.S. Bank National Association, as the Successor Trustee of the District for the 1998 Bonds.

“Escrow Agreement” means that certain Escrow Agreement executed and entered into as of October 1, 2009, by and between the District and the Escrow Agent relating to the refunding of the 1998 Bonds as provided therein.

“Escrow Fund” means the Alameda County Water District Revenue 1998 Water System Refunding Bonds Escrow Fund established under the Escrow Agreement.

“Event of Default” means an event described as such in the Indenture.

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

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

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

“Indenture” means the Indenture executed and entered into as of October 1, 2009, by and between the District and the Trustee relating to the 2009 Bonds and all Supplemental Indentures.

“Independent Certified Public Accountant” means any firm of certified public accountants duly licensed and entitled to practice and practicing as such under the laws of the State of California, appointed and paid by the District, and each of whom --

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

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

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

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

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

“Interest Payment Date” means any June 1 or December 1 on which interest on any of the 2009 Bonds is scheduled to be paid.

“Law” means the County Water District Law of the State of California (constituting Sections 30000 et seq. of the Water Code of the State of California) and all laws amendatory thereof or supplemental thereto, including Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California.

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

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

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

“1998 Bonds” means the Alameda County Water District 1998 Water System Refunding Revenue Bonds issued under and pursuant to that certain Indenture executed and entered into as of December 1, 1998, by and between U.S. Bank Trust National Association, as Trustee and the District.

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

“Outstanding,” when used as of any particular time with reference to 2009 Bonds, means (subject to the provisions of the Indenture) all 2009 Bonds executed, authenticated and delivered under the Indenture except --

(1) 2009 Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation;

(2) 2009 Bonds paid or deemed to have been paid pursuant to the Indenture;  
and

(3) 2009 Bonds in lieu of or in substitution for which other Bonds shall have been executed by the District and authenticated and delivered by the Trustee pursuant to the Indenture.

“Owner” means the registered owner of any Outstanding 2009 Bond, as shown in the registration books maintained by the Trustee pursuant to the Indenture.

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

(i) Federal Securities;

(ii) Obligations issued by banks for cooperatives, federal land banks, federal intermediate credit banks, federal home loan banks, the Federal Home Loan Bank Board or the Tennessee Valley Authority, or obligations, participations or other instruments of or issued by, or fully guaranteed as to interest and principal by, the Federal National Mortgage Association, or guaranteed portions of Small Business Administration notes, or obligations, participations or other instruments of or issued by a federal agency or a United States of America government-sponsored enterprise;

(iii) Any obligations which are then legal investments for moneys of the District under the laws of the State of California; provided, that if such investments are not required to be collateralized or insured, such investments shall be issued by entities the debt securities of which are rated in one of the two highest short-term or long-term rating categories by Moody’s Investors Service and by Standard & Poor’s, a division of The McGraw-Hill Companies, Inc.; and provided further, that any repurchase agreements must be fully secured by collateral security described in clauses (i) and (ii) of this definition, which collateral (A) is held by the District, the Trustee or a third party agent during the term of such repurchase agreement and in which collateral the District or the Trustee, as applicable, has a perfected first security interest, (B) has a market value determined at least every thirty (30) days at least equal to one hundred ten per cent (110%) of the amount so invested, and (C) may be liquidated within seven (7) days if the market value of such collateral is at any time less than the amount so invested;

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

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

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

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

"Principal Corporate Trust Office" means the corporate trust office of the Trustee in San Francisco, California; provided, that for the purposes of the transfer, registration, exchange, payment and surrender of the 2009 Bonds, the term "Principal Corporate Trust Office" shall mean the corporate trust office of the Trustee in St. Paul, Minnesota, or such other office designated by the Trustee from time to time.

"Principal Payment Date" means any June 1 on which principal of any of the 2009 Bonds is scheduled to be paid.

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

"Rebate Fund" means the Alameda County Water District 2009 Water System Refunding Revenue Bonds Rebate Fund established under the Indenture.

"Record Date" means, with respect to any Interest Payment Date, the May 15 or November 15, as the case may be, preceding such Interest Payment Date, whether or not such day is a Business Day.

"Refunding Fund" means the Alameda County Water District 2009 Water System Refunding Revenue Bonds Refunding Fund established pursuant to the Indenture.

“Reserve Requirement” means, as of any date of determination, the least of (a) ten per cent (10%) of the initial offering price to the public of the 2009 Bonds, or (b) the maximum annual interest and principal payments on the 2009 Bonds payable in the current or any future one-year period ending on June 1 under the Indenture, or (c) one hundred twenty-five per cent (125%) of the average annual interest and principal payments on the 2009 Bonds payable in the current or any future one-year period ending on June 1 under the Indenture, all as computed by the District under the Code and specified in writing to the Trustee.

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

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

“Supplemental Indenture” means any indenture then in full force and effect which has been executed by the District and the Trustee, amendatory of the Indenture or supplemental thereto; but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

“Tax Certificate” means the certificate, dated the date of the original issuance and delivery of the 2009 Bonds, with respect to the requirements of certain provisions of the Code, as such certificate may from time to time be amended or supplemented in accordance with its terms.

“Trustee” means U.S. Bank National Association, a national banking association duly organized and existing under and by virtue of the laws of the United States of America and authorized to accept and execute trusts of the character set forth in the Indenture, at its Principal Corporate Trust Office, acting in its capacity as trustee under and pursuant to the Indenture, and its successors or assigns, or any other bank or trust company or national banking association at its Principal Corporate Trust Office which may at any time be substituted in its place as provided in the Indenture.

“2009 Bonds” means the \$26,340,000 aggregate principal amount of the Bonds constituting the Alameda County Water District 2009 Water System Refunding Revenue Bonds authorized, executed, issued and delivered by the District under and pursuant to the Law and under and pursuant to the Indenture and that are secured thereby.

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

“Written Request of the District” means an instrument in writing signed by the General Manager of the District or by the Finance and Administration Manager of the District, or by any other officer of the District duly authorized by the Board of Directors for that purpose.

#### CERTAIN PROVISIONS OF THE INDENTURE

*The Indenture sets forth the terms of the Bonds, the nature and extent of the security therefor, various rights of the Owners, rights and duties and immunities of the Trustee and rights and obligations of the District and the Trustee. Certain provisions of the Indenture are summarized below.* THIS SUMMARY DOES NOT PURPORT TO BE COMPLETE OR DEFINITIVE AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE FULL TERMS OF THE INDENTURE.

#### Pledge of Net Revenues

All Net Revenues are irrevocably pledged to the payment of the 2009 Bonds and all other Installment Purchase Contracts and Bonds in accordance with the terms thereof as provided in the Indenture and therein, and the Net Revenues shall not be used for any other purpose while any of the 2009 Bonds remain unpaid; provided, that out of the Net Revenues there may be apportioned such sums for such purposes as are expressly permitted by the Indenture. This pledge shall constitute a first and exclusive lien on the Net Revenues for the payment of the 2009 Bonds and all other Installment Purchase Contracts and Bonds in accordance with the terms of the Indenture and thereof.

#### Allocation of Net Revenues

In order to carry out and effectuate the pledge and lien contained in the Indenture, the District agrees and covenants that all Revenues shall be received by the District in trust thereunder and shall be deposited when and as received in the Alameda County Water District Water Revenue Fund, which fund the District agrees and covenants to maintain so long as any 2009 Bonds remain Outstanding, and all money in the Revenue Fund shall be applied and used as provided in the Indenture. The District shall pay all Maintenance and Operation Costs (including amounts reasonably required to be set aside in contingency reserves for Maintenance and Operation Costs the payment of which is not then immediately required) from the Revenue Fund as they become due and payable, and the District shall deposit from the remaining money in the Revenue Fund the following amounts at the following times in the following respective special funds (each of which is established and each of which the District agrees and covenants to maintain so long as any 2009 Bonds remain Outstanding) in the following order of priority:

- (a) Bond Redemption Fund (to be held by the Trustee); and
- (b) Bond Reserve Fund (to be held by the Trustee).

All money in each of such funds shall be held in trust and shall be applied, used and withdrawn only for the purposes authorized in the Indenture.

- (a) Bond Redemption Fund. On or before the fifth Business Day before June 1 and December 1 of each year, beginning June 1, 2010, the District shall, from the



money in the Revenue Fund, transfer to the Trustee for deposit (on a parity with the deposits for the payment of all other Installment Purchase Contracts and Bonds) in the Bond Redemption Fund a sum equal to the amount of interest becoming due under the Indenture on the next succeeding June 1 or December 1, as the case may be, and on or before the fifth Business Day before June 1 of each year, beginning June 1, 2010, the District shall, from money in the Revenue Fund, transfer to the Trustee (on a parity with the transfers for the payment of all other Debt Service) for deposit in the Bond Redemption Fund, a sum equal to the amount of principal becoming due under the Indenture on the next succeeding June 1.

No deposit need be made in the Bond Redemption Fund if the amount available and contained therein is at least equal to the amount of interest becoming due under the Indenture on the next succeeding June 1 or December 1, as the case may be, plus the amount of principal becoming due thereunder on the next succeeding June 1 or any sinking fund account payment required to be made on the next succeeding June 1 into any sinking fund account, as the case may be.

All money in the Bond Redemption Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on and principal of the 2009 Bonds as such interest and principal becomes due and payable.

(b) Bond Reserve Fund. On or before the last day of each month, the District shall, from the remaining money in the Revenue Fund, thereafter transfer to the Trustee for deposit (on a parity with the deposits for the reserve funds for all other Installment Purchase Contracts and Bonds) in the Bond Reserve Fund that sum, if any, necessary to restore the Reserve Fund to an amount equal to the Reserve Requirement or to replenish any surety bond issued in lieu thereof.

No deposit need be made in the Bond Reserve Fund if the amount available and contained therein is at least equal to the Reserve Requirement.

All money in the Bond Reserve Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on and principal of the 2009 Bonds as such interest and principal becomes due and payable in the event the money in the Bond Redemption Fund is at any time insufficient for such purpose.

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

### Punctual Payment

The District will punctually pay the interest on and principal of and redemption premiums, if any, on the 2009 Bonds in strict conformity with the terms of the Indenture and of the 2009 Bonds, and will faithfully observe and perform all the agreements, conditions, covenants and terms contained therein and in the 2009 Bonds required to be observed and performed by it.

### Against Encumbrances

The District will not make any pledge of or place any lien on the Net Revenues except as provided in the Indenture. The District may at any time, or from time to time, issue evidences of indebtedness for any lawful purpose that are payable from and secured by a pledge of and lien on any Net Revenues then remaining in the Revenue Fund as provided in the Indenture; provided, that such pledge and lien shall be subordinate in all respects to the pledge of and lien on the Net Revenues provided in the Indenture.

### Against Sale or Other Disposition of the Water System

The District will not sell, lease or otherwise dispose of the Water System or any part thereof essential to the proper operation of the Water System or to the maintenance of the Net Revenues. The District will not enter into any agreement or lease which impairs the operation of the Water System or any part thereof necessary to secure adequate Net Revenues for the payment of the 2009 Bonds, or which would otherwise impair the rights of the Owners with respect to the Net Revenues or the operation of the Water System. Any real or personal property which has become nonoperative or which is not needed for the efficient and proper operation of the Water System, or any material or equipment which has become worn out, may be sold if such sale will not reduce the Net Revenues and if the proceeds of such sale are deposited in the Revenue Fund.

### Against Competitive Facilities

The District will not, to the extent permitted by law, acquire, construct, maintain or operate and will not, to the extent permitted by law and within the scope of its powers, permit any other public or private agency, corporation, district or political subdivision or any person whomsoever to acquire, construct, maintain or operate within the District any water system competitive with the Water System; provided, that nothing contained in the Indenture shall prevent the District from permitting other parties to sell water to retail customers within the area currently served by the Water System.

### Tax Covenants and Matters; Rebate Fund

In addition to the funds established pursuant to the Indenture relating to Net Revenues, the District agrees and covenants to establish and maintain with the Trustee a fund separate from any other fund established and maintained under the Indenture to be known as the "Alameda County Water District 2009 Water System Refunding Revenue Bonds Rebate Fund." Upon receipt of a Written Request of the District, there shall be deposited in the Rebate Fund such amounts furnished by the District as are required to be deposited therein pursuant to the Tax

Certificate, and all money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement (as that term is defined in the Tax Certificate), for payment to the United States of America; and notwithstanding the provisions of the Indenture relating to the pledge of Net Revenues, the allocation of money in the Revenue Fund, the investments of money in any fund and the defeasance of Outstanding 2009 Bonds, all amounts required to be deposited into or on deposit in the Rebate Fund shall be governed exclusively by this section and by the Tax Certificate (which is incorporated therein by reference) and by all Written Requests of the District related thereto filed with the Trustee, and the Trustee shall follow all such Written Requests of the District, and shall have no liability or responsibility to enforce compliance by the District with the terms of the Tax Certificate; provided, that notwithstanding any provisions of this section, if the District shall provide to the Trustee an Opinion of Counsel that any specified action required under this section is no longer required or that some further or different action is required to maintain the exclusion from federal income tax of interest with respect to the 2009 Bonds, the District and the Trustee may conclusively rely on such opinion in complying with the requirements of this section, and, notwithstanding anything to the contrary contained in the Indenture, the agreements and covenants thereunder shall be deemed to be modified to that extent.

#### Maintenance and Operation of the Water System

The District will maintain and preserve the Water System in good repair and working order at all times and will operate the Water System in an efficient and economical manner and will pay all Maintenance and Operation Costs as they become due and payable. On or before the first day of each Fiscal Year, the District will adopt a budget approved by the Board of Directors setting forth the estimated Maintenance and Operation Costs for such Fiscal Year, which budget may be amended at any time during such Fiscal Year.

#### Payment of Claims

The District will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien on the Net Revenues or any part thereof or on any funds in the hands of the District prior to or superior to the lien of the 2009 Bonds or which might impair the security of the 2009 Bonds; provided, that nothing contained in the Indenture shall require the District to make any such payments so long as the District in good faith shall contest the validity of any such claims.

#### Compliance with Contracts

The District will comply with, keep, observe and perform all agreements, conditions, covenants and terms, express or implied, required to be performed by it contained in all contracts for the use of the Water System and all other contracts affecting or involving the Water System to the extent that the District is a party thereto.

#### Insurance

The District will procure and maintain insurance on the Water System with responsible insurers in such amounts and against such risks (including accident to or destruction of the Water System) as are usually covered in connection with water systems similar to the

Water System so long as such insurance is available from reputable insurance companies. In the event of any damage to or destruction of the Water System caused by the perils covered by such insurance, the Net Proceeds thereof shall be applied to the reconstruction, repair or replacement promptly after such damage or destruction shall occur, and the District shall continue and properly complete such reconstruction, repair or replacement as expeditiously as possible, and shall pay out of such Net Proceeds all costs and expenses in connection with such reconstruction, repair or replacement so that the same shall be completed and the Water System shall be free and clear of all claims and liens.

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

All policies of insurance required to be maintained under the Indenture shall provide that the Trustee shall be given thirty (30) days' written notice of any intended cancellation thereof or reduction of coverage provided thereby.

#### Accounting Records; Financial Statements and Other Reports

The District will keep appropriate accounting records in which complete and correct entries shall be made of all transactions relating to the Water System, which records shall be available for inspection by the Owners at reasonable hours and under reasonable conditions.

The District will prepare and file with the Trustee annually within 120 days after the close of each Fiscal Year (commencing with the Fiscal Year ending June 30, 2009) –

- (i) financial statements of the District for the preceding Fiscal Year prepared in accordance with Generally Accepted Accounting Principles, together with an Accountant's Report thereon and a special report prepared by the Independent Certified Public Accountant who examined such financial statements stating that nothing came to his attention in connection with such examination that the District was not in compliance with any of the financial agreements or financial covenants contained in the Indenture; and

- (ii) a Certificate of the District that the District is currently maintaining in full force and effect all policies of insurance (or self-insurance provisions) required to be maintained by the District under the Indenture, and the Trustee shall have no liability for the coverage or amounts of coverage of such policies.

The District will prepare annually not more than 120 days after the close of each Fiscal Year (commencing with the Fiscal Year ending June 30, 2009) a Certificate of the District certifying that the District is in full compliance with all the agreements, conditions, covenants and terms of the Indenture, and will furnish a copy of such Certificate of the District to the

Trustee, to any Owners and to any investment bankers, security dealers and others interested in the 2009 Bonds requesting copies thereof.

#### Protection of Security and Rights of Owners

The District will preserve and protect the security of the 2009 Bonds and the rights of the Owners under the Indenture, and will warrant and defend such rights against all claims and demands of all persons.

#### Payment of Taxes and Compliance with Governmental Regulations

The District will pay and discharge all taxes, assessments and other governmental charges which may hereafter be lawfully imposed upon the Water System or any part thereof or upon the Revenues when the same shall become due. The District will duly observe and confirm with all valid regulations and requirements of any governmental authority relative to the operation of the Water System or any part thereof, but the District shall not be required to comply with any regulations or requirements so long as the validity or application thereof shall be contested in good faith.

#### Amount of Charges, Fees and Rates

The District will fix, prescribe and collect charges, fees and rates for the use of the Water System which will be at least sufficient to yield, during each Fiscal Year, Net Revenues equal to 125% of the Debt Service for such Fiscal Year, plus the amount necessary to restore the Bond Reserve Fund to the Reserve Requirement in such Fiscal Year as provided in the Indenture. The District may make adjustments from time to time in such charges, fees and rates and may make such classification thereof as it deems necessary, but shall not reduce the charges, fees and rates then in effect unless the Net Revenues from such reduced charges, fees and rates will at all times be sufficient to meet the requirements of this section. If for any Fiscal Year the District does not meet the requirements with respect to the rate covenant, the District will engage an Independent Engineer to recommend revised charges, fees and rates, and the District will, to the extent practicable and subject to applicable requirements and restrictions imposed by law and subject to a good faith determination by the District that such recommendations, in whole or in part, are in the best interests of the District, implement such revised charges, fees and rates so as to produce the necessary Net Revenues.

#### Collection of Charges, Fees and Rates

The District will have in effect at all times rules and regulations requiring each user of the Water System to pay the applicable charges, fees and rates and providing for the billing thereof and for a due date and a delinquency date for each bill, and in each case where such bill remains unpaid in whole or in part after it becomes delinquent, the District will enforce the collection procedures contained in such rules and regulations. To the extent permitted by law, the District will not permit any part of the Water System or any facility thereof to be used or taken advantage of free of charge by any corporation, firm or person, or by any public agency (including the United States of America, the State of California and any city, county, district, political subdivision, public corporation or agency of any thereof).

### Eminent Domain Proceeds

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

### Additional Installment Purchase Contracts and Bonds

The District will not incur any obligations payable from the Net Revenues superior to the payment of the 2009 Bonds, although the District may at any time execute any Installment Purchase Contract or issue any Bonds, as the case may be, to finance or refinance any Project the Debt Service on which Installment Purchase Contract or Bonds is payable on a parity with the payment by the District of the 2009 Bonds from the Net Revenues, if:

(a) The Net Revenues for the most recently audited Fiscal Year preceding the date of the adoption by the Board of Directors of the resolution authorizing the execution of such Installment Purchase Contract or the issuance of such Bonds, as the case may be (including adjustments to give effect to increases or decreases in charges, fees or rates for the use of the Water System approved and in effect as of the date of calculation), calculated (with respect to fees) on the basis of the average annual connection fees, annexation fees and other one-time fees received by the District during the immediately preceding three (3) audited Fiscal Year period, as evidenced by both a calculation prepared by the District and a special report prepared by an Independent Certified Public Accountant on such calculation on file with the District, shall have produced a sum equal to at least 125% of the Debt Service for such Fiscal Year on all then outstanding Installment Purchase Contracts and Bonds; and

(b) The estimated Net Revenues for the first Fiscal Year after the latest Date of Operation of any uncompleted Project (or the period for which interest is capitalized, whichever is longer), as evidenced by a calculation prepared by an Independent Engineer on file with the District, plus (after giving effect to the completion of all uncompleted Projects) an allowance for estimated Revenues for such Fiscal Year arising from any increase in the charges, fees or rates estimated to be fixed and prescribed for the use of

the Water System in an amount equal to 90% of the amount by which such Revenues would have been increased if such increase had been in effect during such Fiscal Year (as similarly evidenced), shall produce a sum equal to at least 125% of the estimated Debt Service for such Fiscal Year; after giving effect, in either case, to the execution of all Installment Purchase Contracts and the issuance of all Bonds estimated to be required to be executed or issued to pay the costs of completing all uncompleted Projects, assuming that all such Installment Purchase Contracts and Bonds have maturities, interest rates and proportionate principal repayment provisions similar to the Installment Purchase Contract last executed or then being executed or the Bonds last issued or then being issued for the purpose of acquiring and constructing any of such uncompleted Projects; and

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

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

#### Further Assurances

The District will adopt, deliver, execute and make any and all further assurances, instruments and resolutions as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Indenture and for the better assuring and confirming unto the Owners of the rights and benefits provided to it in the Indenture.

#### The Trustee

U.S. Bank National Association at its Principal Corporate Trust Office, is appointed Trustee under the Indenture for the purpose of receiving all money which the District is required to deposit with the Trustee under the Indenture and to allocate, use and apply such money as provided therein.

The District at any time may (prior to the occurrence of an Event of Default which shall then be continuing), upon any breach of the trust set forth in the Indenture, remove any Trustee and appoint any successor thereto upon 30 days' written notice to the removed Trustee; provided, that any such successor Trustee shall be a bank or trust company or national banking association with a principal corporate trust office in Los Angeles or San Francisco, California, and that has a combined capital (exclusive of borrowed capital) and surplus of at least one hundred million dollars (\$100,000,000) and is subject to supervision or examination by federal or state authority. If such bank or trust company or national banking association publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of this section the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

Any Trustee may at any time resign by giving written notice to the District and by giving to the Owners notice of such resignation, which notice shall be mailed to the Owners at their addresses appearing in the registration books maintained by the Trustee pursuant to the Indenture. Upon receiving such notice of resignation, the District shall promptly appoint a successor Trustee by an instrument in writing; provided, that if no such successor shall have been appointed by the District within 30 days after the receipt by the District of such notice, the resigning Trustee may petition any court of competent jurisdiction to appoint a successor Trustee.

Any resignation or removal of a Trustee and appointment of a successor Trustee shall become effective only after a successor Trustee shall have been appointed and only upon the acceptance of appointment by the successor Trustee.

The Trustee is authorized and directed to pay the interest on the 2009 Bonds on each Interest Payment Date as provided in the Indenture and to pay the principal of and the redemption premiums, if any, on the 2009 Bonds when duly presented for payment at maturity or on redemption prior to maturity, and to cancel and destroy all 2009 Bonds upon payment thereof and to deliver evidence of such cancellation and destruction to the District.

The District shall from time to time, subject to any agreement between the District and the Trustee then in force, pay to the Trustee compensation for its services, reimburse the Trustee for all its advances and expenditures, including but not limited to advances to and fees and expenses of independent accountants, counsel and engineers or other experts employed by it in the exercise and performance of its duties and obligations under the Indenture, and indemnify and save the Trustee and its officers, directors, employees and agents harmless against any costs, expenses, losses and liabilities not arising from its own negligence or willful misconduct which it may incur in the exercise and performance of its duties and obligations thereunder. The Trustee's rights to indemnification and protection from liability thereunder and its rights to payment of its fees and expenses shall survive its resignation or removal and final payment or defeasance of the 2009 Bonds.

Any bank or trust company into which the Trustee may be merged or converted or with which it may be consolidated, or any bank or trust company resulting from any merger, conversion or consolidation to which it shall be a party, or any bank or trust company to which



the Trustee may sell or transfer all or substantially all of its corporate trust business, if such bank or trust company would be eligible under this section to serve as Trustee, shall be the successor Trustee under the Indenture without the execution or filing of any paper or any further act, anything therein to the contrary notwithstanding.

#### Liability of Trustee

The recitals of facts, agreements and covenants contained in the Indenture and in the 2009 Bonds shall be taken as statements, agreements and covenants of the District, and the Trustee does not assume any responsibility for the correctness of the same and does not make any representation as to the validity or sufficiency thereof or of the 2009 Bonds, the adequacy of any security afforded thereunder, or the correctness or completeness of any information contained in any offering materials distributed in connection with the sale of any 2009 Bonds, and shall not incur any responsibility in respect of any of the foregoing other than in connection with the duties or obligations assigned to or imposed upon it under the Indenture. The Trustee shall not be liable in connection with the performance of its duties and obligations under the Indenture except for its own negligence or willful misconduct.

The Trustee shall be under no obligation to exercise any of the rights vested in it under the Indenture at the request or direction of any Owner pursuant thereto unless such Owner shall have offered to the Trustee security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction.

Except during the continuance of an Event of Default,

(a) the Trustee undertakes to perform such duties and obligations and only such duties and obligations as are specifically set forth in the Indenture, and no implied duties or obligations shall be read therein against the Trustee; and

(b) in the absence of negligence or willful misconduct on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee and conforming to the requirements of the Indenture.

In case an Event of Default has occurred and is then continuing, the Trustee shall exercise such rights vested in it under the Indenture, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

The Trustee shall not be accountable for the use by the District of any money which the Trustee releases to the District or which the District otherwise receives, or to verify compliance by the District with the provisions of the Indenture. The Trustee shall not have any obligation to incur any financial or other liability or risk in performing any duty or obligation or in exercising any right or remedy thereunder. The Trustee shall be entitled to interest on all amounts advanced by it under the Indenture at the maximum interest rate permitted by law. The Trustee in its individual or other capacity may become the owner or pledgee of the 2009 Bonds with the same rights it would have if it were not the Trustee.

The Trustee shall not be deemed to have knowledge of any Event of Default (other than a payment default under the Indenture) until an officer of the Trustee at its Principal Corporate Trust Office has been notified by the District in writing that such an Event of Default has occurred. The Trustee shall not be bound to ascertain or inquire as to the performance or observance by any other party of any of the agreements, conditions, covenants or terms of the Indenture or of any of the documents executed in connection with the 2009 Bonds.

The Trustee shall not have any duty to review any financial statement filed with it by the District.

Before taking action under the Indenture relating to Events of Default and remedies of Owners or upon the direction of the Owners, the Trustee may require that indemnity satisfactory to it be furnished to it to protect it against all fees and expenses, including those of its attorneys and advisors, and protect it against all liability it may incur.

#### Notice to Trustee

The Trustee shall be protected in acting upon any bond, certificate, consent, indenture, notice, order, report, request, requisition or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Trustee may consult with counsel, who may be counsel to the District, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered under the Indenture in good faith and in accordance therewith.

The Trustee shall not be bound to recognize any person as the Owner of a 2009 Bond unless and until such 2009 Bond is submitted for inspection, if required, and his title thereto satisfactorily established, if disputed.

Whenever in the administration of its duties and obligations under the Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action thereunder, such matter (unless other evidence in respect thereof be therein specifically prescribed) may, in the absence of bad faith on the part of the Trustee, be deemed to be conclusively proved and established by a Certificate of the District, and such certificate shall be full warrant to the Trustee for any action taken or suffered under the provisions thereof upon the faith thereof, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

#### Procedure for Amendment of or Supplement to the Indenture

The Indenture and the rights and obligations of the District and of the Owners may be amended or supplemented at any time by a Supplemental Indenture which shall become binding when the written consents of the Owners of at least 60% in aggregate principal amount of the 2009 Bonds then Outstanding (exclusive of 2009 Bonds disqualified as provided in the Indenture) are filed with the Trustee; provided, that no such amendment or supplement shall (1) extend the maturity of any 2009 Bond, or reduce the interest rate thereon, or otherwise alter or impair the obligation of the District to pay the interest thereon or the principal thereof or any redemption premium thereon or to pay any sinking fund account payment therefor at the time

and place and at the rate and in the currency and from the funds provided in the Indenture without the express written consent of the Owner of such 2009 Bond, or (2) permit the creation by the District of any mortgage, pledge or lien upon the Net Revenues and the other funds provided in the Indenture superior to or on a parity with the pledge and lien created therein for the benefit of the 2009 Bonds and the Installment Purchase Contracts and all other Bonds, or (3) reduce the percentage of 2009 Bonds required for the written consent to any amendment of the Indenture or supplement thereto, or (4) modify any rights or obligations of the Trustee without its prior written assent thereto.

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

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

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

(c) To provide for the issuance of any additional Bonds and to provide the terms and conditions under which such additional Bonds may be issued, subject to and in accordance with the provisions of the Indenture;

(d) To amend or supplement the Indenture in such manner as to permit the qualification of the Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other agreements, conditions, covenants and terms as may be permitted by said act or any similar federal statute, which shall not materially adversely affect the interests of the Owners of the 2009 Bonds;

(e) To maintain the exclusion under the Code of interest on the 2009 Bonds from gross income for federal income tax purposes or the exemption of such interest from State of California personal income taxes;

(f) To the extent necessary to obtain a municipal bond insurance policy or to maintain any then existing rating on the 2009 Bonds or to satisfy all or a portion of the Reserve Requirement by crediting a policy of insurance, a surety bond or a letter of credit or other comparable credit facility to the Bond Reserve Fund;

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

The Trustee may conclusively rely upon and accept an Opinion of Counsel that an amendment of the Indenture is in conformity with the provisions of this article.

### Amendment by Mutual Consent

The provisions of this article shall not prevent any Owner from accepting any amendment as to the particular 2009 Bonds held by such Owner, provided that due notation thereof is made on such 2009 Bonds.

### Events of Default and Remedies

If one or more of the following events shall happen, that is to say:

(a) If default shall be made in the due and punctual payment of the interest on any 2009 Bond when and as the same shall become due and payable;

(b) If default shall be made in the due and punctual payment of the principal of or the redemption premium, if any, on any 2009 Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by declaration or otherwise;

(c) If default shall be made by the District in the observance or performance of any of the other agreements, conditions, covenants or terms on its part contained in the Indenture or in the 2009 Bonds, and such default shall have continued for a period of 30 days after the District shall have been given notice in writing of such default by the Trustee; provided, that such default shall not constitute an Event of Default under the Indenture if the District shall commence to cure such default within such 30-day period and thereafter diligently and in good faith shall proceed to cure such default within a reasonable period of time; or

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

then, and in each and every such case during the continuance of such Event of Default, the Trustee may, and upon the written request of the Owners of not less than 25% in aggregate principal amount of the 2009 Bonds at the time Outstanding shall, by notice in writing to the District, declare the principal of all of the 2009 Bonds then Outstanding and the interest accrued thereon to be immediately due and payable, and upon any such declaration the same shall become due and payable, anything contained in the Indenture or in the 2009 Bonds to the contrary notwithstanding; provided, that if at any time after the principal of the 2009 Bonds shall have been so declared due and payable and before any judgment or decree for the payment of the money due thereunder shall have been obtained or entered, the District shall deposit with the Trustee a sum sufficient to pay all principal on the 2009 Bonds matured prior to such declaration and all matured installments of interest (if any) upon all the 2009 Bonds, with interest at the rate of 12% per annum on such overdue installments of interest and principal, and all expenses of the Trustee, including attorneys' fees, together with interest on any amounts advanced as provided in the Indenture, and any and all other defaults known to the Trustee (other than in the payment of

interest and principal on the 2009 Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee (or provision deemed by the Trustee to be adequate shall have been made therefor), then, and in every such case, the Owners of at least a majority in aggregate principal amount of the 2009 Bonds then Outstanding, by written notice to the District and to the Trustee, may (on behalf of the Owners of all the 2009 Bonds) rescind and annul such declaration and its consequences; except that no such rescission or annulment shall extend to or shall affect any subsequent default or shall impair or exhaust any right consequent thereon.

#### Application of Funds Upon Acceleration

All money in the funds provided in the Indenture (except the Rebate Fund) upon the date of the declaration of acceleration by the Trustee as provided in the Indenture, and all Net Revenues thereafter available to the District under the Indenture, shall be transmitted to the Trustee and shall be applied by the Trustee in the following order:

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

Second, upon presentation of the several 2009 Bonds, and the stamping thereon of the amount of the payment if only partially paid or upon the surrender thereof if fully paid, to the payment of the whole amount then owing and unpaid upon the 2009 Bonds for interest and principal, with interest on the overdue interest and principal at the rate of 12% per annum, and in case such money shall be insufficient to pay in full the whole amount so owing and unpaid upon the 2009 Bonds, then to the payment of such interest, principal and interest on overdue interest and principal without preference or priority among such interest, principal and interest on overdue interest and principal, ratably to the aggregate of such interest, principal and interest on overdue interest and principal.

#### Other Remedies of Owners

Any Owner shall have the right for the equal benefit and protection of all Owners similarly situated:

(a) By mandamus or other suit or proceeding at law or in equity to enforce his rights against the District and any of the officers and employees of the District, and to compel the District or any such officers or employees to perform and carry out their duties under the Law and their agreements and covenants with the Owners as provided herein;

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

(c) Upon the happening of an Event of Default, by a suit in equity to require the District and its officers and employees to account for the Net Revenues as the trustee of an express trust.

### Remedies Not Exclusive

No remedy conferred upon or reserved to the Owners is intended to be exclusive of any other remedy, and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Indenture or existing, at law or in equity or by statute or otherwise, and may be exercised without exhausting and without regard to any other remedy conferred by the Law or any other law.

### Discharge of 2009 Bonds

If the District shall pay or cause to be paid, or there shall otherwise be paid, to the Owners of all Outstanding 2009 Bonds the interest thereon and the principal thereof and the redemption premiums, if any, thereon at the times and in the manner stipulated therein and in the Indenture, then the Owners of such 2009 Bonds shall cease to be entitled to the pledge of Net Revenues and the other funds provided in the Indenture, and all agreements, covenants and other obligations of the District to the Owners of such 2009 Bonds thereunder shall thereupon cease, terminate and become void and be discharged and satisfied.

Any Outstanding 2009 Bonds shall prior to the scheduled maturity dates thereof be deemed to have been paid within the meaning of and with the effect expressed in the first paragraph of this section (except that the District shall remain liable for the payment of such 2009 Bonds, but only from the money deposited with the Trustee as provided in the Indenture) if there shall have been deposited with the Trustee money to be held in trust by the Trustee sufficient for such payment at the maturity dates thereof or the redemption dates thereof.

Any Outstanding 2009 Bonds shall prior to the scheduled maturity dates thereof be deemed to have been paid within the meaning of and with the effect expressed in the first paragraph of this section (except that the District shall remain liable for the payment of such 2009 Bonds, but only from the money or Federal Securities deposited with the Trustee as provided by the Indenture) if (1) there shall have been deposited with the Trustee either money in an amount which shall be sufficient or Federal Securities which are not subject to redemption prior to maturity (including any Federal Securities issued or held in book-entry form on the books of the Department of Treasury of the United States of America) the interest on and the principal of which when paid will provide money which, together with the money, if any, deposited with the Trustee at the same time, shall be sufficient (as evidenced by a report of an Independent Certified Public Accountant obtained by the District and filed with the Trustee) to pay when due the interest to become due on such 2009 Bonds on and prior to the maturity dates thereof or the redemption dates thereof and the principal of and the redemption premiums, if any, on such 2009 Bonds on the maturity dates thereof or the redemption dates thereof, and (2) the District shall have given the Trustee (in form satisfactory to the Trustee) irrevocable instructions to mail, as soon as practicable, a notice to the Owners of such Bonds that the deposit required by clause (1) of this paragraph has been made with the Trustee and that such 2009 Bonds are deemed to have been paid in accordance with this section, and stating the maturity dates thereof or the redemption dates thereof upon which money is to be available for the payment of the principal of and the redemption premiums, if any, on such 2009 Bonds; provided, that no Federal Securities or money deposited with the Trustee pursuant to this section (nor any interest on or principal payments of such Federal Securities) shall be withdrawn or used for any purpose other

than, and such Federal Securities and money shall be held in trust for, the payment of the interest on and the principal of and the redemption premiums, if any, on such 2009 Bonds as provided therein, except that any money received from such interest on or principal payments of such Federal Securities deposited with the Trustee which is not then needed for the foregoing purpose shall, to the extent practicable, be reinvested as specified in a Written Request of the District filed with the Trustee in Federal Securities maturing at the times and in the amounts sufficient to pay when due the interest on and the principal of and the redemption premiums, if any, on such 2009 Bonds on and prior to such maturity dates thereof or redemption dates thereof, and all interest earned from such reinvestments shall be deposited in the Revenue Fund.

After the payment of the interest and principal and redemption premiums, if any, on all Outstanding 2009 Bonds as provided in this section, the Trustee shall (after the Payment of all amounts due to it under the Indenture) execute and deliver to the District all such instruments as may be necessary or desirable to evidence the discharge and satisfaction of the Indenture, and the Trustee shall pay over or deliver to the District all money or deposits or investments held by it pursuant thereto which are not required for the payment of the interest and principal and redemption premiums, if any on the 2009 Bonds.

#### Unclaimed Money

Any money held by the Trustee in trust for the payment and discharge of the interest on or the principal of or the redemption premiums, if any, on any of the 2009 Bonds which remains unclaimed for two years after the date when such payments have become due and payable, if such money was held by the Trustee at such date, or for two years after the date of deposit of such money if deposited with the Trustee after the date when such payments became due and payable, shall be repaid by the Trustee to the District as its absolute property and free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Owners shall look only to the District for the making of such payments; provided, that before being required to make any such payment to the District, the Trustee shall mail by first class mail to the Owners of such 2009 Bonds (at the expense of the District) at their addresses as they appear in the registration books maintained by the Trustee pursuant to the Indenture a notice that such money remains unclaimed and that, after a date named in such notice, which date shall not be less than 30 days after the date of the mailing of such notice, the balance of such money then unclaimed will be returned to the District.

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**APPENDIX B**

**AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR  
ENDED JUNE 30, 2008**

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the business-type activities of the Alameda County Water District (District), as of and for the years ended June 30, 2008 and 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2008 and 2007, and the results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles in the United States.

As described in Note 2 to the basic financial statements, the District adopted Statement of the Governmental Accounting Standards Board No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, and No. 50, *Pension Disclosures (an amendment of Statement 25 and 27)*.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2008, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

To the Board of Directors  
of the Alameda County Water District  
Fremont, California  
Page 2

The accompanying Required Supplementary Information, such as management's discussion and analysis, and other information as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the Required Supplementary Information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Capricci & Carson*

Oakland, California  
October 17, 2008

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section of the Alameda County Water District's (District) comparative financial statements presents an analysis of the District's financial performance during the fiscal years ended June 30, 2008 and 2007. This information is presented in conjunction with the audited basic financial statements, which follow this section.

### **FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2008**

- The District's net assets increased by \$15.3 million or 4.1 percent from \$372.6 million to \$387.9 million.
- Operating revenues decreased by \$0.6 million or 0.9 percent from \$64.6 million to \$64.0 million.
- Operating expenses increased by \$2.8 million or 4.7 percent from \$59.0 million to \$61.8 million.
- Capital contributions to the District decreased by \$0.8 million or 16.7 percent from \$4.8 million to \$4.0 million.
- Among the significant projects completed during the fiscal year ended June 30, 2008 were construction and main relocations related to the Washington Blvd Grade Separation Project, Centerville 24" pipeline and Irvington 48" pipeline relocations, construction of monitoring wells, Mowry and PT Wellfield equipment replacement, Alameda Creek Pipeline No. 1 Fish Screen Project, Lago Los Osos Diversion Pipeline, rehabilitation of Bellflower Well, upgrade of the District's 2-way radio system, enhancements to water quality databases, and various computer system and network upgrades.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

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

### **REQUIRED FINANCIAL STATEMENTS**

The Financial Statements of the District report information utilizing the full accrual basis of accounting. The Financial Statements conform to accounting principles which are generally accepted in the United States of America. The Comparative Statements of Net Assets include information on the District's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). The Comparative Statements of Activities and Changes in Net Assets identify the District's revenues and expenses for the fiscal years ended June 30, 2008 and 2007. This statement provides information on the District's operations over the past two fiscal years and can be used to determine whether the District has recovered all of its actual and projected costs through user fees and other charges. The third financial statement is the Comparative Statements of Cash Flows. This statement provides information on the District's cash receipts, cash payments and changes in cash resulting from operations, investments and financing activities. From the Comparative Statements of Cash Flows, the reader can obtain comparative information on the source and use of cash and the change in the cash and cash equivalents balance for each of the last two fiscal years.

## FINANCIAL ANALYSIS OF THE DISTRICT

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

### Government-Wide Financial Statement

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

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

	2008	2007	2008 vs. 2007		2006	2007 vs. 2006	
			Dollar Change	Percent Change		Dollar Change	Percent Change
Current and Other Assets	\$ 141.7	\$ 128.9	\$ 12.8	9.9%	\$ 112.8	\$ 16.1	14.3%
Capital Assets	314.5	311.0	3.5	1.1%	309.6	1.4	0.5%
<b>Total Assets</b>	<b>456.2</b>	<b>439.9</b>	<b>16.3</b>	<b>3.7%</b>	<b>422.4</b>	<b>17.5</b>	<b>4.1%</b>
Long-term Debt	52.7	54.4	(1.7)	-3.1%	56.1	(1.7)	-3.0%
Other Liabilities	15.5	12.9	2.6	20.2%	11.4	1.5	13.2%
<b>Total Liabilities</b>	<b>68.2</b>	<b>67.3</b>	<b>0.9</b>	<b>1.3%</b>	<b>67.5</b>	<b>(0.2)</b>	<b>-0.3%</b>
Net assets invested in capital assets, net of related debt	260.7	255.5	5.2	2.0%	252.8	2.7	1.1%
Net assets restricted for debt service	7.7	7.8	(0.1)	-1.3%	7.8	-	0.0%
Unrestricted net assets	119.5	109.3	10.2	9.3%	94.3	15.0	15.9%
<b>Total Net Assets</b>	<b>\$ 387.9</b>	<b>\$ 372.6</b>	<b>\$ 15.3</b>	<b>4.1%</b>	<b>\$ 354.9</b>	<b>\$ 17.7</b>	<b>5.0%</b>

As the above table indicates, total assets increased by \$16.3 million from \$439.9 million to \$456.2 million during the fiscal year ended June 30, 2008. This is comprised of an increase of \$12.8 million in current and other assets and an increase of \$3.5 million in capital assets. For the fiscal year ended June 30, 2007, total assets increased by \$17.5 million from \$422.4 million to \$439.9 million. This increase consisted of \$16.1 million in current and other assets and an increase of \$1.4 million in capital assets. The increases in each year in current and other assets and in capital assets reflect favorable operations and planned accumulation of reserves for upcoming major capital projects that are identified in the District's long range Capital Improvement Program. Projects scheduled for the upcoming fiscal year 2009 include phase 2 expansion of the Desalination Facility and process upgrades at Water Treatment Plant Nos. 1 & 2 and PT Blending Facilities, tank and reservoir seismic upgrades, Distribution System seismic improvement study, main replacements, upgrades, and relocations, security improvements at various facilities, Rubber Dam 2 modifications, and ARP Well upgrades and site improvements.



## FINANCIAL ANALYSIS OF THE DISTRICT, Continued

For fiscal year ended June 30, 2008, total liabilities reflect an increase of \$0.9 million due mainly to an increase in the amount of outstanding accounts payable, accrued expenses and contractor and customer deposits that were partially offset by the reduction in long term debt as a result of scheduled principal payments during the fiscal year. For fiscal year ended June 30, 2007, total liabilities reflect a decrease of \$0.2 million due mainly to the scheduled principal payment on outstanding long-term debt and a reduction in the amount of outstanding accounts payable, accrued expenses and deferred revenues that was partially offset by an increase in contractor and customer deposits.

Table 1 also indicates that total net assets increased by \$15.3 million from \$372.6 million to \$387.9 million for fiscal year ended June 30, 2008. This increase is due to an increase of \$5.2 million in net assets invested in capital assets, net of related debt and an increase of \$10.2 million in unrestricted net assets. For fiscal year ended June 30, 2007, total net assets increased by \$17.7 million due to an increase of \$2.7 million in net assets invested in capital assets, net of related debt and an increase of \$15.0 million in unrestricted net assets. These figures reflect the District's continued emphasis on improving its capital infrastructure and prudent long range financial planning.

Table 2  
Condensed Comparative Statements of Activities  
and Changes in Net Assets  
(In millions of dollars)

	2008	2007	2008 vs. 2007		2006	2007 vs. 2006	
			Dollar Change	Percent Change		Dollar Change	Percent Change
Operating Revenues	\$ 64.0	\$ 64.6	\$ (0.6)	-0.9%	\$ 58.9	\$ 5.7	9.7%
Nonoperating Revenues	12.0	10.4	1.6	15.4%	5.3	5.1	96.2%
<b>Total Revenues</b>	<b>76.0</b>	<b>75.0</b>	<b>1.0</b>	<b>1.3%</b>	<b>64.2</b>	<b>10.8</b>	<b>16.8%</b>
Depreciation and Amortization Expense	10.8	10.7	0.1	0.9%	10.4	0.3	2.9%
Other Operating Expenses	51.0	48.3	2.7	5.6%	44.2	4.1	9.3%
Nonoperating Expenses	2.9	3.0	(0.1)	-3.3%	3.0	-	0.0%
<b>Total Expenses</b>	<b>64.7</b>	<b>62.0</b>	<b>2.7</b>	<b>4.4%</b>	<b>57.6</b>	<b>4.4</b>	<b>7.6%</b>
<b>Income Before Capital Contributions</b>	<b>11.3</b>	<b>13.0</b>	<b>(1.7)</b>	<b>-13.1%</b>	<b>6.6</b>	<b>6.4</b>	<b>97.0%</b>
<b>Capital Contributions</b>	<b>4.0</b>	<b>4.8</b>	<b>(0.8)</b>	<b>-16.7%</b>	<b>4.2</b>	<b>0.6</b>	<b>14.3%</b>
<b>Changes in Net Assets</b>	<b>15.3</b>	<b>17.8</b>	<b>(2.5)</b>	<b>-14.0%</b>	<b>10.8</b>	<b>7.0</b>	<b>64.8%</b>
<b>Beginning Net Assets</b>	<b>372.7</b>	<b>354.9</b>	<b>17.8</b>	<b>5.0%</b>	<b>344.1</b>	<b>10.8</b>	<b>3.1%</b>
<b>Ending Net Assets</b>	<b>\$ 388.0</b>	<b>\$ 372.7</b>	<b>\$ 15.3</b>	<b>4.1%</b>	<b>\$ 354.9</b>	<b>\$ 17.8</b>	<b>5.0%</b>

The Comparative Statements of Activities and Changes in Net Assets identify the various revenue and expense items which impact the change in net assets. As the information in Table 2 indicates, income before capital contributions of \$11.3 million and capital contributions of \$4.0 million were the two items which resulted in an increase of \$15.3 million in net assets by the end of the 2007/08 fiscal year. In the previous 2006/07 fiscal year, income before capital contributions of \$13.0 million and capital contributions of \$4.8 million were the two items which resulted in an increase of \$17.8 million in net assets.

## **FINANCIAL ANALYSIS OF THE DISTRICT, Continued**

For fiscal year ended June 30, 2008, Table 2 indicates that the District's total revenues increased by \$1.0 million or 1.3 percent to \$76.0 million in the fiscal year ended June 30, 2008 from \$75.0 million in the prior year. Increases in revenue from water sales (\$0.8 million), investment income (\$0.8 million), property taxes (\$0.8 million) and development related fees including facilities connection charges (\$0.6 million) were offset by a reduction in fees, rental and other revenues (\$1.9 million). The increase in water sales revenue was due primarily to a water rate increase and accrued unbilled water revenues that was partially offset by a reduction in water consumption. Investment income was higher due to larger average cash balances on hand during the fiscal year. The increase in property tax revenue reflects growth and property reassessments in the District's portion of the one percent county-wide property tax allocation and increases in the State Water Contract Tax levy to fund increased costs in the groundwater portion of the District's State Water Project costs. Reductions in project specific grant funding and other reimbursements contributed largely to the decrease in other revenues during the fiscal year. Total expenses increased by \$2.7 million or 4.4 percent during the 2007/08 fiscal year. This was due primarily to increasing costs in operating expenses including purchased water costs, water treatment, and administration and general expenses.

For fiscal year ended June 30, 2007, the District's total revenues increased by \$10.8 million or 16.8 percent. Increases in revenue from water sales (\$3.9 million), investment income (\$2.0 million), property taxes (\$3.2 million), fees, rental and other revenues (\$1.9 million) were offset by a reduction in development related fees including facilities connection charges (\$0.3 million). The increase in water sales revenue was due primarily to a water rate increase and increases in consumption and accrued unbilled water revenues. Investment income was higher due to larger cash balances on hand and increase in interest rates. The increase in property tax revenue reflects the end of the two year State of California property tax take-away and return to normal levels of property tax collections. Grant funding and other reimbursements contributed to the increase in other revenues during the fiscal year. Total expenses increased by \$4.4 million or 7.6 percent during the 2006/07 fiscal year. This increase was due primarily to higher operating expenses including purchased water costs and distribution system maintenance expenses.

## **CAPITAL ASSETS**

As of June 30, 2008, the District's investment in capital assets totaled \$314.5 million, which is an increase of \$3.5 million or 1.1 percent over the capital asset balance of \$311.0 million at June 30, 2007. In the previous fiscal year, the District's investment in capital assets increased by \$1.4 million or 0.5 percent over the capital asset balance of \$309.6 million at June 30, 2006. Capital assets include all of the District's major capital assets, including infrastructure assets, water treatment facilities, water mains, pipes and storage reservoirs, land, District headquarters and other structures, as well as vehicles and other equipment with a value of \$5,000 or more. A comparison of the District's capital assets over the past three fiscal years is presented in Table 3.



**CAPITAL ASSETS, Continued**

Table 3  
Capital Assets  
(In millions of dollars)

	2008	2007	2008 vs. 2007		2006	2007 vs. 2006	
			Dollar Change	Percent Change		Dollar Change	Percent Change
Land	\$ 9.7	\$ 9.7	\$ -	0.0%	\$ 9.7	\$ -	0.0%
Source of Supply	43.8	43.2	0.6	1.4%	42.6	0.6	1.4%
Pumping Plant	18.9	18.8	0.1	0.5%	18.3	0.5	2.7%
Water Treatment	115.0	114.8	0.2	0.2%	114.0	0.8	0.7%
Transmission and Distribution	219.1	215.8	3.3	1.5%	211.3	4.5	2.1%
General	33.8	33.3	0.5	1.5%	32.6	0.7	2.1%
Construction in Progress	42.8	34.9	7.9	22.6%	31.1	3.8	12.2%
Subtotal	483.1	470.5	12.6	2.7%	459.6	10.9	2.4%
Less Accumulated Depreciation	(168.6)	(159.5)	(9.1)	5.7%	(150.0)	(9.5)	6.3%
<b>Total Capital Assets (net of depreciation)</b>	<b>\$ 314.5</b>	<b>\$ 311.0</b>	<b>\$ 3.5</b>	<b>1.1%</b>	<b>\$ 309.6</b>	<b>\$ 1.4</b>	<b>0.5%</b>

There were several capital projects completed during the 2007/08 fiscal year that contributed to the overall increase in capital assets, including the construction and main relocations related to the Washington Blvd Grade Separation Project, Centerville 24" pipeline and Irvington 48" pipeline relocations, construction of monitoring wells, Mowry and PT Wellfield equipment replacement, Alameda Creek Pipeline No. 1 Fish Screen Project, Lago Los Osos Diversion Pipeline, rehabilitation of Bellflower Well, upgrade of the District's 2-way radio system, enhancements to water quality databases, and various computer system and network upgrades. In addition to these completed projects, there were also a number of major capital projects that were under construction or in progress as of June 30, 2008. Those projects included the expansion of the Newark Desalination Facility, WTP1 and WTP2 process upgrades, PT Blending Facility Chemical Feed Upgrades, Alameda Reservoir water quality enhancements, tank and reservoir seismic upgrades, various water main replacements and upgrades, distribution system seismic improvement study, security upgrades at various District facilities and Rubber Dam 2 modifications.

Major completed projects contributing to the increase in capital assets during the 2006/07 fiscal year include construction and main relocations related to the Paseo Padre Grade Separation Project, upgrade of large meters, design of the 16" Mission Blvd. Pipeline, rehabilitation of Peralta-Tyson Wells 4 & 6, update of the Integrated Resources Plan, construction of monitoring wells, and process upgrades at Water Treatment Plant No. 2.

Additional information on the District's capital assets and construction commitments is provided in Note 5 (page 25) of the financial statements.

## **LONG-TERM DEBT**

As of June 30, 2008, the District had \$54.6 million in outstanding debt compared to \$56.3 million on June 30, 2007 and \$58.0 million on June 30, 2006. The decreases in outstanding debt represent principal payments of \$1.7 million in each of the fiscal years ended June 30, 2008 and June 30, 2007. Revenues certificates of participation in the amount of \$25 million were issued in November 2003 to fund costs associated with the construction of a desalination facility and associated pipelines and upgrades to the Mission San Jose Water Treatment Plant. This debt will be paid in annual installments through the year 2028. The outstanding debt also includes a note payable which was issued in 1993 to fund property acquisition costs and is being paid in annual installments through the year 2011 as well as refunding bonds which were issued in 1998. The refunding revenue bonds in the amount of \$46.6 million were issued to prepay and defease outstanding certificates of participation which were issued in 1992 and 1995 at a higher interest rate. These bonds mature in 2020. The District has covenanted that it will fix, prescribe and collect rates, fees and charges for use of the District's water system during each fiscal year which are at least sufficient to yield in each fiscal year net revenues equal to 125 percent of the debt service for such fiscal year, plus any amount necessary to restore the bond reserve fund to the reserve requirement.

Additional information on the District's long-term debt is provided in Note 8 (page 27) of the financial statements.

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

The Board of Directors adopted the District's third two-year budget on June 7, 2007. The approval of a two-year budget provides funding for the District's operating, capital and debt service costs for the 2007/08 and 2008/09 fiscal years. The District's water rates are reviewed by staff and the Board of Directors on an annual basis. Water rates were last adjusted in February 2008 with the implementation of an increase of four and one-half percent. Rate increases over the past five years have been minimal with the District's rates remaining in the lower one-third of thirty other water agencies surveyed in the Bay Area.

## **ADDITIONAL FINANCIAL INFORMATION**

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

## **BASIC FINANCIAL STATEMENTS**

**Alameda County Water District**  
**Comparative Statements of Net Assets**  
**For the years ended June 30, 2008 and 2007**

	2008	2007
<b>ASSETS</b>		
Current assets:		
Cash and Investments (Note 3)	\$ 95,583,800	\$ 84,406,600
Customer and other accounts receivable, net (Note 4)	3,761,100	4,516,600
Accrued unbilled revenue	6,094,600	5,520,500
Taxes receivable	407,300	419,800
Grant receivable	85,000	99,200
Interest receivable	1,175,200	886,800
Materials and supplies	1,942,700	1,737,100
Prepaid items	72,700	18,500
Total unrestricted assets	109,122,400	97,605,100
Restricted cash and investments (Note 3)	7,882,100	8,008,100
Total current assets	117,004,500	105,613,200
Noncurrent assets:		
Polybutylene settlement receivables, long-term portion (Note 15)	531,700	775,200
Supplemental water supply storage (Note 6)	23,335,900	21,693,100
Debt issuance costs	785,300	833,800
Capital assets: (Note 5)		
Nondepreciable	52,464,600	44,561,800
Depreciable, net	262,063,900	266,437,500
Total capital assets	314,528,500	310,999,300
Total noncurrent assets	339,181,400	334,301,400
<b>Total assets</b>	<b>456,185,900</b>	<b>439,914,600</b>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable and accrued expenses (Note 7)	4,825,700	4,051,300
Accrued payroll and related liabilities	2,374,200	2,229,000
Contractor and customer deposits	6,046,700	4,234,400
Interest payable	220,600	227,000
Deferred Revenue	220,100	225,000
Long-term debt - due within one year (Note 8)	1,816,100	1,898,800
Total current liabilities	15,503,400	12,865,500
Long-term liabilities		
Long-term debt - due in more than one year (Note 8)	52,740,500	54,398,900
Total long-term liabilities	52,740,500	54,398,900
<b>Total liabilities</b>	<b>68,243,900</b>	<b>67,264,400</b>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	260,757,200	255,535,400
Restricted for debt service	7,661,600	7,781,100
Unrestricted	119,523,200	109,333,700
<b>Total net assets</b>	<b>\$ 387,942,000</b>	<b>\$ 372,650,200</b>

See accompanying Notes to the Basic Financial Statements.

**Alameda County Water District**  
**Comparative Statements of Activities and Changes in Net Assets**  
**For the years ended June 30, 2008 and 2007**

	2008	2007
<b>OPERATING REVENUES:</b>		
Water sales	\$ 58,087,000	\$ 57,285,000
Facilities connection charges	3,873,500	3,276,100
Fees and rental	1,063,500	3,077,200
Other	1,026,700	943,900
<b>Total operating revenues</b>	<b>64,050,700</b>	<b>64,582,200</b>
<b>OPERATING EXPENSES:</b>		
Source of supply:		
Water purchases	14,210,500	12,985,200
Pumping	2,573,900	2,665,600
Other	6,783,300	6,302,900
<b>Total sources of supply</b>	<b>23,567,700</b>	<b>21,953,700</b>
Water treatment	10,097,300	9,732,300
Transmission and distribution	10,088,900	10,310,600
Administration of customer accounts	1,076,100	1,055,700
Administration and general	6,209,700	5,286,400
Depreciation and amortization	10,810,700	10,698,200
<b>Total operating expenses</b>	<b>61,850,400</b>	<b>59,036,900</b>
<b>Operating income</b>	<b>2,200,300</b>	<b>5,545,300</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>		
Investment income	5,343,900	4,536,800
Property taxes	6,657,400	5,819,800
Gain on disposal of plant assets	26,000	52,100
Interest expense	(2,923,300)	(2,994,500)
<b>Total nonoperating revenues (expenses)</b>	<b>9,104,000</b>	<b>7,414,200</b>
Capital contributions	3,987,500	4,795,900
<b>Increase in net assets</b>	<b>15,291,800</b>	<b>17,755,400</b>
<b>NET ASSETS:</b>		
Beginning of year	372,650,200	354,894,800
End of year	<u>\$ 387,942,000</u>	<u>\$ 372,650,200</u>

See accompanying Notes to the Basic Financial Statements.

**Alameda County Water District**  
**Comparative Statements of Cash Flows**  
**For the years ended June 30, 2008 and 2007**

	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash receipts from customers and others	\$ 66,067,500	\$ 64,767,800
Cash receipts from polybutylene settlement	229,700	216,700
Cash payments to suppliers for goods and services	(43,239,300)	(42,163,300)
Cash payments to employees for services	(7,140,600)	(6,290,600)
<b>Net cash provided by operating activities</b>	<b>15,917,300</b>	<b>16,530,600</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Property taxes received	6,669,900	5,400,000
<b>Net cash provided by noncapital financing activities</b>	<b>6,669,900</b>	<b>5,400,000</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Additions to capital assets	(11,995,200)	(8,346,500)
Proceeds from sale of assets	26,000	52,100
Principal paid on debt	(1,898,800)	(1,828,800)
Interest paid on debt	(2,723,500)	(2,842,700)
<b>Net cash (used) by capital and related financing activities</b>	<b>(16,591,500)</b>	<b>(12,965,900)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Investment income received	5,055,500	4,124,400
<b>Net cash provided by investing activities</b>	<b>5,055,500</b>	<b>4,124,400</b>
<b>Net Increase (decrease) in cash and cash equivalents</b>	<b>11,051,200</b>	<b>13,089,100</b>
<b>CASH, RESTRICTED AND INVESTMENTS:</b>		
Beginning of year	92,414,700	79,325,600
End of year	<u>\$ 103,465,900</u>	<u>\$ 92,414,700</u>
<b>RECONCILIATION TO STATEMENTS OF NET ASSETS:</b>		
Cash and investments	\$ 95,583,800	\$ 84,406,600
Restricted cash and investments	7,882,100	8,008,100
<b>Total cash, restricted cash and investments</b>	<b><u>\$ 103,465,900</u></b>	<b><u>\$ 92,414,700</u></b>

See accompanying Notes to the Basic Financial Statements.

**Alameda County Water District**  
**Comparative Statements of Cash Flows, Continued**  
**For the years ended June 30, 2008 and 2007**

	2008	2007
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Operating income	\$ 2,200,300	\$ 5,545,300
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	10,810,700	10,698,200
Changes in operating assets and liabilities:		
Customer and other accounts receivable	769,300	230,800
Accrued unbilled revenue	(574,100)	(1,572,400)
Grant receivable	14,200	(59,100)
Materials and supplies	(205,600)	(25,900)
Prepaid expenses	(54,200)	98,900
Polybutylene settlement receivable	229,700	216,700
Accounts payable and accrued expenses	774,400	(239,700)
Accrued payroll and related liabilities	145,200	51,500
Contractor and customer deposits	1,812,300	1,809,800
Deferred revenue	(4,900)	(223,500)
<b>Net cash provided by operating activities</b>	<b>\$ 15,917,300</b>	<b>\$ 16,530,600</b>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
<b>NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Amortization of discount and deferred loss on debt refundings	\$ 157,700	\$ 157,700
Capital contributions	3,987,500	4,795,900
<b>Total noncash capital and related financing activities</b>	<b>\$ 4,145,200</b>	<b>\$ 4,953,600</b>
<b>NONCASH INVESTING ACTIVITIES:</b>		
Increase (decrease) in fair value of investments	\$ 333,900	\$ 212,700

See accompanying Notes to the Basic Financial Statements.

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**Alameda County Water District**  
**Notes to Basic Financial Statements**  
**For the years ended June 30, 2008 and 2007**

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**1. DESCRIPTION OF THE REPORTING ENTITY**

***A. Description of Operations***

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

***B. Reporting Entity***

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

As required by GAAP, these basic financial statements present the District and its component units, entities for which the District is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the District's operations and data from these units are combined with data of the District. Each blended component unit has a June 30 year-end. The District had no discretely presented component units. The following entity is reported as a blended component unit:

The Alameda County Water District Public Facilities Financing Corporation (the Corporation) was established in 1992 to issue debt for the benefit of the District. Additional financial data for the Alameda County Water District Public Facilities Financing Corporation may be obtained from the Alameda County Water District office at 43885 South Grimmer Boulevard, Fremont, California, 94537.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

**Alameda County Water District**  
**Notes to Basic Financial Statements, Continued**  
**For the years ended June 30, 2008 and 2007**

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

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

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of *economic resources* measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the Statements of Net Assets. Net assets (i.e., total assets net of total liabilities) are segregated into invested in capital assets, net of related debt; restricted for debt service; and unrestricted components.

The District's basic financial statements are presented on the accrual basis of accounting and conform to accounting principles generally accepted in the United States.

Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The receivables have been recorded as revenue and provisions have been made for uncollectible amounts. The District has elected under Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board, or any Accounting Research Bulletins issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements.

**B. *Cash and Investments***

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

In accordance with GASB Statement No. 40, Deposit and Investment Disclosures (Amendment of GASB No. 3), certain disclosure requirements for Deposits and Investment Risks were made in the following areas:

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

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

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

**Alameda County Water District**  
**Notes to Basic Financial Statements, Continued**  
**For the years ended June 30, 2008 and 2007**

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

***B. Cash and Investments, Continued***

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

***C. Accrued Unbilled Revenue***

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

***D. Materials and Supplies***

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

***E. Capital Assets***

The cost of additions to the utility plant and major replacements of retired units of property is capitalized. The District defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Cost includes direct labor, outside services, materials and transportation, employee fringe benefits and overhead. The District was not required to capitalize interest during fiscal years 2008 and 2007. The cost and accumulated depreciation of property sold or retired is deducted from capital assets, and any profit or loss resulting from the disposal is credited or charged in the nonoperating section of the statements of revenues, expenses and changes in net assets. The cost of current repairs, maintenance, and minor replacements is charged to expense. Construction in progress primarily relates to upgrades of existing facilities.

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

Structures, reservoirs, pumps and other improvements	20-50 years
Office furniture, fixtures and equipment	2-10 years
Motor vehicles	5 years

***F. Long-Term Debt and Related Costs***

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

**Alameda County Water District**  
**Notes to Basic Financial Statements, Continued**  
**For the years ended June 30, 2008 and 2007**

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

***G. Operating Revenues and Expenses***

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

***H. Property Tax Revenue***

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

***I. Capital Contributions***

Transmission and distribution system assets contributed to the District by installers are capitalized at the installers' costs, which approximated fair value at the time of the District's acquisition, and recorded as capital contributions when received.

***J. Net Assets***

In the Government-Wide Financial Statements, net assets are classified in the following categories:

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

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

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

**Alameda County Water District**  
**Notes to Basic Financial Statements, Continued**  
**For the years ended June 30, 2008 and 2007**

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

***K. Use of Estimates***

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

***L. Reclassification***

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

***M. Implementation of New GASB Pronouncements***

In 2008, the District adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board Statements:

- GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* - This Statement establishes accounting and financial reporting standards for transactions in which a government receives, or is entitled to, resources in exchange for future cash flows generated by collecting specific receivables or specific future revenues. In addition, this Statement establishes accounting and financial reporting standards that apply to all intra-entity transfers of assets and future revenues.
- GASB Statement No. 50, *Pension Disclosures – An Amendment of GASB Statements No. 25 and 27* - This Statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits.

**3. CASH AND INVESTMENTS**

The District maintains an internal cash and investment pool in a single enterprise fund. Certain restricted funds that are held and invested by independent outside custodians through contractual agreements are not pooled, and are reported as cash with fiscal agents.

**Alameda County Water District**  
**Notes to Basic Financial Statements, Continued**  
**For the years ended June 30, 2008 and 2007**

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**3. CASH AND INVESTMENTS, Continued**

**A. Summary of Cash and Investments**

	2008	2007
Cash	\$ 554,600	\$ (706,400)
Investments	95,029,200	85,113,000
Total Cash and investments	<u>\$ 95,583,800</u>	<u>\$ 84,406,600</u>
Restricted Cash and Investments	<u>\$ 7,882,100</u>	<u>\$ 8,008,100</u>

**B. Authorized Investments**

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

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

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

- The Local Agency Investment Fund (LAIF) maintained by the State of California.
- Obligations issued by agencies or instrumentalities of the U.S. Government.
- Bankers' acceptances with a term not to exceed 180 days.
- Prime commercial paper with a term not to exceed 270 days and the highest rating issued by Moody's Investors Service or Standard & Poor's Corporation, on the date of purchase.
- Negotiable certificates of deposit issued by federally chartered or state-chartered banks or associations.
- Medium-term notes issued by corporations organized and operating in the United States.
- United States Treasury notes, bonds, bills or other obligations for which full faith and credit of the United States are pledged for payment.
- The California Asset Management Program (CAMP).

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



**Alameda County Water District**  
**Notes to Basic Financial Statements, Continued**  
**For the years ended June 30, 2008 and 2007**

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**3. CASH AND INVESTMENTS, Continued**

***B. Authorized Investments, Continued***

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

***C. Deposits***

The carrying amount of the District's deposits were a positive balance of \$554,600 and a negative balance of \$706,400 and the bank balances were \$1,385,200 and \$889,500 at June 30, 2008 and 2007, respectively. The difference between the bank balance and the carrying amount represents outstanding checks and deposits in transit. Of the bank balances, \$500,000 were insured by the Federal Deposit Insurance Corporation and the remainder was collateralized by the pledging financial institutions as required by California Government Code at June 30, 2008.

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

***D. Investments***

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

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) which is regulated by California Government Code and is under the oversight of the Treasurer of the State of California. The fair value of the District's position in the pool is the same as the value of the pool shares.

The District's investments with LAIF at June 30, 2008 and 2007, included a portion of the pool funds invested in Structured Notes and Asset-Backed Securities. These investments included the following:

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

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

**Alameda County Water District**  
**Notes to Basic Financial Statements, Continued**  
**For the years ended June 30, 2008 and 2007**

**3. CASH AND INVESTMENTS, Continued**

***D. Investments, Continued***

As of June 30, 2008 and 2007, the District had \$21,790,500 and \$15,085,800, respectively invested in LAIF, which had invested 14.72% and 3.466% of the pooled investment funds in Structured Notes and Asset-Backed Securities. The District valued its investments in LAIF as of June 30, 2008 and 2007, by multiplying its account balance with LAIF times a fair value factor determined by LAIF. This fair value factor was determined by dividing all LAIF participants' total aggregate fair value by total aggregate amortized cost resulting in a factor of 0.999950219 and 0.999545022, respectively.

As of June 30, 2008 and 2007, the District's investment in the CAMP pool was \$1,228,100 and \$1,428,200 respectively. The total amount invested by all public agencies in CAMP at that date was \$2,010,064,100 and \$1,366,043,900, respectively. A board of five trustees who are officials or employees of public agencies has oversight responsibility for CAMP. The value of the pool shares in CAMP, which maybe withdrawn at anytime, is determined on an amortized cost basis, which is different from the fair value of the District's position in the pool.

***E. Summary of Investments***

Investments held in the District Investment grouped by maturity date at June 30, 2008, are shown below:

Investment Type	Fair Value	Investment Maturities (in years)		
		1 year or less	1-2 years	2-3 years
Securities of U.S. Government Treasury Agencies				
Certificates of Deposits	\$ 19,450,000	\$ 3,150,000	\$ 16,300,000	\$ -
Securities of U.S. Government Agencies:				
Federal Farm Credit Bank	5,882,100	1,518,500	4,363,600	-
Federal Home Loan Bank	8,198,900	7,176,200	1,022,700	-
Federal Home Loan MC	9,336,000	9,336,000	-	-
Federal National MA	2,012,600	2,012,600	-	-
Associates Corp NA	2,471,300	2,471,300	-	-
General Electric CAP Corp	13,939,600	7,010,600	2,761,200	4,167,800
Bank of America	3,683,000	-	3,683,000	-
HSBC Finance Group	2,005,600	2,005,600	-	-
JPMorgan Chase & Co	1,006,000	-	-	1,006,000
Wal-Mart Stores	2,855,700	-	2,855,700	-
Wells Fargo Bank NA	1,169,800	-	-	1,169,800
Total Securities of U.S. Government Agencies	<u>52,560,600</u>	<u>31,530,800</u>	<u>14,686,200</u>	<u>6,343,600</u>
Local Agency Investment Funds	21,790,500	21,790,500	-	-
California Asset Management Program	1,228,100	1,228,100	-	-
	<u>\$ 95,029,200</u>	<u>\$ 57,699,400</u>	<u>\$ 30,986,200</u>	<u>\$ 6,343,600</u>



**Alameda County Water District**  
**Notes to Basic Financial Statements, Continued**  
**For the years ended June 30, 2008 and 2007**

**3. CASH AND INVESTMENTS, Continued**

**F. Risks**

*Interest Rate Risk.* As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy provides that final maturities of securities cannot exceed three years. Specific maturities of investments depend on liquidity needs. At June 30, 2008, the District's pooled cash and investments had the following maturities:

Maturity	Percentage of Investment
Less than one year	61%
One to three years	39%

The average life of the portfolio was 289 days.

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

At June 30, 2008, the District had the following investments credit risk ratings:

	Credit Quality Ratings	
	Moody's	S&P
Investments:		
Certificates of Deposit - Bank of the West	Aa3	AA-
Certificates of Deposit - U.S. Bank	Unrated	Unrated
Certificates of Deposit - Fremont Bank	Aa2	AA
Securities of U.S. Government Agencies:		
Federal Farm Credit Bank	Aaa	AAA
Federal Home Loan Bank	Aaa	AAA
Federal Home Loan Bank Mortgage Corp.	Aaa	AAA
Federal National MA	Aaa	AAA
Total Securities of U.S. Government Agencies		
Corporate Bonds:		
Associates Corp. NA	Aa3	AA-
Bank of America	Aa2	AA-
HSBC Finance Corp.	Aa3	AA-
JPMorgan Chase	Aa2	AA-
General Electric CAP Corp	Aaa	AAA
Wal-Mart Stores	Aa2	AA
Wells Fargo Bank	Aa1	AA+
Total Corporate Bonds		
Local Agency Investment Funds	Not Rated	
California Asset Management Program	-	AAAm

**Alameda County Water District**  
**Notes to Basic Financial Statements, Continued**  
**For the years ended June 30, 2008 and 2007**

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**3. CASH AND INVESTMENTS, Continued**

**F. Risks, Continued**

*Custodial Credit Risk.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counter party, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All securities, with the exception of the money market funds and LAIF, are held by a third-party custodian (BNY Western Trust). BNY is a registered member of the Federal Reserve Bank. The securities held by BNY are in street name, and a customer number assigned to the District identifies ownership.

**G. Fair Value of Investments**

GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, requires that the District's investments be carried at fair market value instead of cost. Accordingly, the District adjusts the carrying value of its investments to reflect their fair value at each fiscal year-end and the effects of these adjustments are included in income for that fiscal year. The calculation of realized gains and losses is independent of the calculation of the change in the fair value of investments and realized gains and losses of the current period include unrealized amounts from prior periods. Changes in value in the fiscal year ended June 30, 2008 amounted to an unrealized increase of \$333,900.

**4. CUSTOMER AND OTHER ACCOUNTS RECEIVABLE**

Customer and other accounts receivable were as follows:

	2008	2007
Utility service	\$ 2,868,500	\$ 3,494,100
Groundwater replenishment	102,000	84,300
Current portion of polybutylene settlement	243,500	229,700
Other	561,500	726,000
Allowance for doubtful accounts	(14,400)	(17,500)
<b>Total customer and other accounts receivables, net</b>	<b>\$ 3,761,100</b>	<b>\$ 4,516,600</b>

**Alameda County Water District**  
**Notes to Basic Financial Statements, Continued**  
**For the years ended June 30, 2008 and 2007**

**5. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2008 was as follows:

	Balance July 1, 2007	Additions	Retirements	Transfers	Balance June 30, 2008
Capital assets, not being depreciated:					
Land	\$9,658,100	\$ 22,400	\$ (3,800)	\$ -	\$ 9,676,700
Construction in progress	34,903,900	12,238,900	(49,600)	(4,305,300)	42,787,900
Total capital assets, not being depreciated	44,562,000	12,261,300	(53,400)	(4,305,300)	52,464,600
Capital assets, being depreciated:					
Source of supply	43,151,200	-	-	631,500	43,782,700
Pumping plant	18,803,500	123,000	-	19,800	18,946,300
Water treatment	114,777,100	11,300	(2,700)	238,600	115,024,300
Transmission and distribution	215,789,600	702,800	(496,700)	3,102,100	219,097,800
General	33,274,300	627,400	(397,000)	313,300	33,818,000
Total capital assets, being depreciated	425,795,700	1,464,500	(896,400)	4,305,300	430,669,100
Less accumulated depreciation:					
Source of supply	(28,497,700)	(1,588,600)	-	-	(30,086,300)
Pumping plant	(10,074,900)	(774,600)	-	-	(10,849,500)
Water treatment	(25,969,500)	(2,276,400)	600	-	(28,245,300)
Transmission and distribution	(81,408,000)	(4,195,400)	357,300	-	(85,246,100)
General	(13,408,300)	(1,140,500)	370,800	-	(14,178,000)
Less accumulated depreciation	(159,358,400)	(9,975,500)	728,700	-	(168,605,200)
Total capital assets, being depreciated, net	266,437,300	(8,511,000)	(167,700)	4,305,300	262,063,900
Total capital assets, net	\$ 310,999,300	\$ 3,750,300	\$ (221,100)	\$ -	\$ 314,528,500

Depreciation expense for capital assets for the year ended June 30, 2008 and 2007 were \$9,975,500 and \$9,950,800, respectively.

The District had various active construction projects as of June 30, 2008. The Alameda Reservoir Water Quality Enhancement Project at \$151,000, Hidden Valley Tank Seismic Upgrades at \$261,000, Washington Boulevard Grade Separation Main Replacement at \$366,000, Cedar 2 ARP Well Intertie Pipeline at \$35,000, Centerville 24" Pipeline Relocation at \$1,500,000, Roberts Ave Main Replacement at \$230,000, and the Alameda Creek Pipeline #1 Fish Screen at \$2,600,000.

**Alameda County Water District**  
**Notes to Basic Financial Statements, Continued**  
**For the years ended June 30, 2008 and 2007**

**6. SUPPLEMENTAL WATER SUPPLY STORAGE**

Supplemental water supply activity for the year ended June 30, 2008 was as follows:

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008
Supplemental Water Supply Storage, being depreciated	24,273,900	2,478,000	-	26,751,900
Accumulated depreciation	(2,580,800)	(835,200)	-	(3,416,000)
Supplemental Water Supply Storage, Net	<u>\$ 21,693,100</u>	<u>\$ 1,642,800</u>	<u>\$ -</u>	<u>\$ 23,335,900</u>

In 1996 and in 2001, the District entered into two agreements for a water banking and exchange program with Semitropic Water Storage District and its Improvement District (Semitropic). The entities are used for storage, withdrawal, and exchange rights for the District's State Water Project supplies. As of June 30, 2008, Semitropic's total capital component cost was \$183.5 million adjusted annually by the Construction Costs Index. Under the two agreements, the District's combined share of the total Capital Component Cost is a 15% vesting in the program. Under the 1996 agreement (for 5% of the Semitropic program capacity), the District pays the capital component when storing and recovering water. Under the 2001 agreement (for an additional 10% of the program capacity), the District has paid for the capital costs through fixed annual payments. For the year ended June 30, 2008, the District has capitalized \$26.7 million which includes all costs associated with storage, power, operations & maintenance fees and take costs. The agreements terminate in November 2035.

The District had a storage allocation of 150,000 acre-feet and had approximately 122,687 and 127,244 acre feet of water at June 30, 2008 and 2007, respectively. During fiscal year 2004, the District's management changed its method of estimating its cost of usage of its supplemental water storage costs. In prior years, the District's procedures would be to reduce its costs when the District used the supplemental water supply. In fiscal year 2004, the costs of the District's water storage is amortized over the remaining life of the agreement. This change resulted in the recognition of amortization expense in the amount of \$835,200 and \$747,500 for the years ended June 30, 2008 and June 30, 2007, respectively.

**7. ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

Accounts payable and accrued expenses were as follows:

	2008	2007
Vendors	\$ 3,388,500	\$ 2,591,400
Retention payable	40,300	86,500
Installer's reimbursement (see note 9)	1,279,500	1,267,200
Other	117,400	106,200
<b>Total</b>	<u>\$ 4,825,700</u>	<u>\$ 4,051,300</u>

**Alameda County Water District**  
**Notes to Basic Financial Statements, Continued**  
**For the years ended June 30, 2008 and 2007**

**8. LONG-TERM DEBT**

Long-term debt activities for the year ended June 30, 2008 was as follows:

Description	Beginning Balance July 1, 2007	Additions	Reductions	Ending Balance June 30, 2008	Amounts Due Within One Year	Amounts Due Over One Year
1998 Water System Refunding						
Revenue Bonds	\$ 33,095,000	\$ -	\$ (1,840,000)	\$ 31,255,000	\$ 1,915,000	\$ 29,340,000
Unamortized discount	(2,177,200)	-	167,400	(2,009,800)	(167,400)	(1,842,400)
2003 Certificates of Participation	25,000,000	-	-	25,000,000	-	25,000,000
Unamortized premium	203,300	-	(9,700)	193,600	9,700	183,900
Note payable	176,600	-	(58,800)	117,800	58,800	59,000
<b>Total</b>	<b>\$ 56,297,700</b>	<b>\$ -</b>	<b>\$ (1,741,100)</b>	<b>\$ 54,556,600</b>	<b>\$ 1,816,100</b>	<b>\$ 52,740,500</b>

**1998 Water System Refunding Revenue Bonds**

On December 1, 1998, the District issued \$46,650,000 of refunding revenue bonds (the 1998 Revenue Bonds) to refund the 1992 and 1995 Water System Project Certificates of Participation (the Certificates). The installment Bonds have interest rates ranging from 3.5% to 4.75% and are payable in installments ranging from \$1,635,000 to \$3,400,000 through June 1, 2020. The net proceeds from the issuance were used to purchase U.S. government securities which were deposited in an irrevocable trust with an escrow agent to provide debt service payments until June 1, 2005, when the 1995 Certificates were repaid at a prepayment price equal to the principal amount of the 1995 Certificates then outstanding plus a prepayment premium of 2% of such principal amount. The 1998 Revenue Bonds are payable solely from and secured by the revenues received from the operation of the District's water system. Annual principal and interest payments on the bonds are expected to require less than 10 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$41,738,900. Principal and interest paid for the current year and total water net revenues were \$3,354,100 and \$58,087,000, respectively.

The debt service requirements for the bonds at June 30, 2008 were as follows:

Year Ending June 30,	Principal	Interest	Total
2009	\$ 1,915,000	\$ 1,444,100	\$ 3,359,100
2010	1,995,000	1,363,700	3,358,700
2011	2,085,000	1,277,900	3,362,900
2012	2,175,000	1,186,200	3,361,200
2013-2017	13,340,000	4,272,000	17,612,000
2018-2020	9,745,000	940,000	10,685,000
Subtotal	31,255,000	10,483,900	41,738,900
Less Unamortized Discount	(2,009,800)	-	(2,009,800)
<b>Total</b>	<b>\$ 29,245,200</b>	<b>\$ 10,483,900</b>	<b>\$ 39,729,100</b>

**Alameda County Water District**  
**Notes to Basic Financial Statements, Continued**  
**For the years ended June 30, 2008 and 2007**

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

**2003 Certificates of Participation**

In November 2003, the District issued \$25,000,000 of Revenues Certificates of Participation (2003 COP Bonds). The District had built a desalination facility and associated pipelines and upgraded its Mission San Jose Water Treatment Plant treatment process to an ultra filtration membrane process (Project). The District has used the net proceeds and reimbursed itself for these and related capital cost. The Certificates have interest rates ranging from 4.6% to 5.25% and they are payable in installments ranging from \$2,615,000 to \$3,695,000 starting from 2021 through 2028. The 2003 COP Bonds are payable solely from and secured by the revenues received from the operation of the District's water system. Annual principal and interest payments on the bonds are expected to require less than 10 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$45,081,200. Principal and interest paid for the current year and total water net revenues were \$1,202,900 and \$58,087,000, respectively.

The debt service requirements for the bonds at June 30, 2008 were as follows:

Year Ending June 30,	Principal	Interest	Total
2009	\$ -	\$ 1,202,900	\$ 1,202,900
2010	-	1,202,900	1,202,900
2011	-	1,202,900	1,202,900
2012	-	1,202,900	1,202,900
2013-2017	-	6,014,700	6,014,700
2018-2022	5,360,000	5,877,400	11,237,400
2023-2027	15,945,000	3,202,000	19,147,000
2028	3,695,000	175,500	3,870,500
Subtotal	25,000,000	20,081,200	45,081,200
Add Unamortized Premium	193,600	-	193,600
<b>Total</b>	<b>\$ 25,193,600</b>	<b>\$ 20,081,200</b>	<b>\$ 45,274,800</b>

**Note Payable**

In 1993, the District entered into a financial agreement to purchase certain properties. The District issued a note payable in the amount of \$1,000,000, maturing on August 2010, which bears no interest and is payable in annual installments from \$59,000 to \$58,800.

The debt service requirements for the note payable at June 30, 2008 were as follows:

Year Ending June 30,	Principal
2009	\$ 58,800
2010	59,000
<b>Total</b>	<b>\$ 117,800</b>

**Alameda County Water District**  
**Notes to Basic Financial Statements, Continued**  
**For the years ended June 30, 2008 and 2007**

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**9. INSTALLERS' REIMBURSEMENT**

The District has agreements to reimburse certain developers for a portion of the cost as defined by the District, of oversized mains, main extensions, and storage tanks constructed or installed by them at the request of the District. The terms of the agreements provide that such costs are reimbursable over a period of up to ten years out of certain cash receipts collected from contractors subsequently connecting to those previously installed mains. Such receipts are deposited in a cash deposits account separately for transmittal to the developers. The amount of such receipts, which had not been remitted as of June 30, 2008 and 2007, were \$1,279,500 and \$1,267,200, respectively, and are included in accounts payable and accrued expenses in the accompanying Statements of Net Assets. In the event that the designated future cash receipts from contractors are not adequate to fully reimburse the developers for the eligible construction cost incurred by the end of the ten-year period, the District will have no future obligation to the developers.

**10. RISK MANAGEMENT**

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

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

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

The District's deductibles and maximum coverage are as follows:

Coverage Description	Deductibles	Insurance Coverage
General Liability	\$ 25,000	\$ 10,000,000
Automobile	25,000	10,000,000
Excess Liability	-	10,000,000
Property	25,000	54,468,700
Workers' compensation	-	Statutory
Employee Dishonesty	-	400,000



**Alameda County Water District**  
**Notes to Basic Financial Statements, Continued**  
**For the years ended June 30, 2008 and 2007**

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**11. COMMITMENTS**

In 1961, the District entered into a contract with the State of California (the State) to purchase water through the year 2035. After the initial term, the contract is renewable indefinitely by the District under essentially the same conditions as the original contract upon six months prior written notice to the State. The District's actual water usage for fiscal years 2008 and 2007 were approximately 20,100 and 15,800 acre-feet, respectively. The entitlement will be 42,000 acre-feet during fiscal year 2008 and thereafter. In any year when the entitlement is in excess of the District's needs, the State will attempt to sell such excess and credit the District. The costs to the District for water purchased under this contract for fiscal years 2008 and 2007 were approximately \$5,414,500 and \$4,260,100, respectively, and were charged to operations as incurred.

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

The District's commitment under the State water contract will remain in effect until 2036 or until the cost of the State's facilities is recovered, whichever is longer. The commitment is subject to increase in future years as a result of additional improvements of higher-than-anticipated operating costs, and is projected by the State to be \$176,628,600 as of June 30, 2008 which was based on June 30, 2007 amount provided by the State.

Year Ending June 30,	State Water Purchase Commitment
2009	\$ 6,124,700
2010	6,597,500
2011	7,236,400
2012	7,144,900
2013	7,016,300
2014-2018	33,551,600
2019-2023	32,340,600
2024-2028	31,767,800
2029-2033	30,003,800
2034-2036	14,845,000
Total Water Purchase	<u>176,628,600</u>

The District entered into a contract with the San Francisco Water Department (SFWD) in June 1984 to purchase certain minimum amounts of water over a 25-year period. The costs to the District for water purchased under this contract for fiscal years 2008 and 2007 were approximately \$8,249,600 and \$8,538,300, respectively, and were charged to operations as incurred. The District is obligated under the term of the agreement to make a minimum purchase of 9,020 acre-feet of water per year through 2010 at the then-current cost of water. In the event that the SFWD is unable to supply sufficient water to all users, the available water will be apportioned among the users ratably, with the District liable only for water actually delivered. For fiscal year 2008, the estimated cost of the minimum purchase commitment was approximately \$5,107,300. In fiscal year 2009, the District expects to purchase 13,875 acre-feet of water for a total price of approximately \$9,014,700.



**Alameda County Water District**  
**Notes to Basic Financial Statements, Continued**  
**For the years ended June 30, 2008 and 2007**

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**12. PENSION PLANS**

**A. Plan Description**

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

**B. Funding Policy**

Active plan members are required by state statute to contribute 8% of their annual covered salary. The District was required to contribute for fiscal years 2008 and 2007 at an actuarially determined rate of 19.210% and 19.138% of annual covered payroll for the District's employees, which amounted to \$3,209,700 and \$3,132,900 for the years ended June 30, 2008 and 2007.

**C. Annual Pension Cost**

For fiscal year 2008 and 2007, the District's annual pension cost of \$3,209,700 for PERS was equal to the District's required and actual contributions. The required contribution was determined as part of the June 30, 2006 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases ranging from 3.25% to 14.45% and (c) 3.25% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.0%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a fifteen-year period. PERS unfunded actuarial accrued liability (or surplus) is being amortized as a level percentage of projected payroll on a closed basis. The average amortization period for current service unfunded liability at June 30, 2006 was 30 years.

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2006	3,471,200	100%	-
2007	3,132,900	100%	-
2008	3,209,700	100%	-

**Alameda County Water District**  
**Notes to Basic Financial Statements, Continued**  
**For the years ended June 30, 2008 and 2007**

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**12. PENSION PLANS, Continued**

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

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

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	(Unfunded) Liability - (UAAL)/ Excess Assets	Funded Ratio	Annual Covered Payroll	(UAAL)/ Excess Assets As Percentage of Covered Payroll
6/30/2006	116,680,060	95,041,054	(21,639,006)	(81.5%)	16,322,560	(132.6%)

Actuarial valuations for June 30, 2008 and 2007 are not available.

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

Effective January 1, 1997, the District established and administered the Alameda County Water District 401(a) Plan (the Plan), a defined contribution plan. The Plan provides retirement benefits to District employees. The employees vest upon joining the Plan. The District has agreed to contribute to the employee's accounts to match the employees' Internal Revenue Code Section 457 contributions up to a specified amount. The District contributed \$55,600 and \$55,100 in fiscal years 2008 and 2007, respectively, as required under the District's Management, Confidential and Professional (MCP) employee compensation schedule. Effective January 1, 2004, the District's matching calendar year contribution to the 401(a) plan was in accordance with the Memorandum of Understanding (MOU) for United Public Employees Local 1021, AFL-CIO employees, was discontinued.

**13. OTHER POST EMPLOYMENT BENEFITS**

In addition to the pension benefits described in Note 11, the District provides health plan coverage for eligible retiree and their dependents pursuant to CalPERS Health Benefit Program eligibility requirements. For employees hired before August 1, 2002, the District's contribution for each retired employee and all eligible dependents and eligible survivors shall be the amount necessary to pay the full cost of his/her enrollment, including the enrollment of his/her family members in a health benefits plan up to a maximum of the PERS Choice Plan or the highest cost California HMO in the CalPERS Health Care Program, whichever is higher.

**Alameda County Water District**  
**Notes to Basic Financial Statements, Continued**  
**For the years ended June 30, 2008 and 2007**

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

For employees hired on or after August 1, 2002, the percentage of employer contribution payable for post retirement health benefits for each retired employee shall be based on the employee's completed years of credited service based upon Government Code Section 22825.5. The credited service for purposes of determining the percentage of employer contributions shall mean service as defined in Section 20069, except that not less than five years of that service must be performed entirely with the District.

Credited Years of Service	Percentage of Employer Contributions
10	50
11	55
12	60
13	65
14	70
15	75
16	80
17	85
18	90

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

The District provides health care benefits as described above for the surviving spouse and eligible dependents of a retiree so long as they meet the eligibility requirements. The District provides life insurance at a flat \$2,000 benefit for union retirees and a flat \$4,000 benefit for other retirees.

A total of 164 and 152 retirees participated in the plan as of June 30, 2008 and 2007, respectively. The cost of post employment health care and life benefits is recognized as claims are paid. For the years ended June 30, 2008 and 2007, expenses of approximately \$1,447,300 and \$1,349,800, respectively, were recognized for post employment health care and life insurance benefits.

**14. LITIGATION**

In the normal course of business, the District is a defendant in various lawsuits. Defense of the lawsuits is being handled by the District's insurance carriers and losses, if any, are expected to be covered by insurance. District officials are of the opinion that none of these lawsuits will have a material adverse effect on the District's financial position.

**Alameda County Water District**  
**Notes to Basic Financial Statements, Continued**  
**For the years ended June 30, 2008 and 2007**

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**15. POLYBUTYLENE SETTLEMENT**

In April 1996, the District filed a complaint for damages caused by defective polybutylene water service laterals installed in the District's water distribution system. The defendants sued are polybutylene resin producers, pipe extruders, fitting manufactures, and water works suppliers. In March 2001, the District settled with all defendants for approximately \$6,861,400 and dismissed the case. For fiscal year 2008 and 2007, the District received a total settlement of \$6,098,200 and \$5,868,500, respectively. In addition, the District will receive the present value of \$1,450,000 payable in five annual installments through August 1, 2010. For 2008 and 2007, this receivable is included as other accounts receivable in the amount of \$243,500 and \$229,700 for the current portion. Polybutylene settlement receivable was \$531,700 and \$775,200 for the long-term portion, in the accompanying Statements at June 30, 2008 and 2007.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**Alameda County Water District**  
**Required Supplementary Information**  
**For the years ended June 30, 2008 and 2007**

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**1. DEFINED BENEFIT PENSION PLAN**

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

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	(Unfunded) Liability - (UAAL)/ Excess Assets	Funded Ratio	Annual Covered Payroll	(UAAL)/ Excess Assets As Percentage of Covered Payroll
6/30/2004	102,484,958	81,495,380	(20,989,578)	(79.5%)	15,453,917	(135.8%)
6/30/2005	108,496,814	87,595,347	(20,901,467)	(80.7%)	15,837,720	(132.0%)
6/30/2006	116,680,060	95,041,054	(21,639,006)	(81.5%)	16,322,560	(132.6%)

Actuarial valuations for June 30, 2008 and 2007 are not available.

# STATISTICAL SECTION

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# STATISTICAL SECTION

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This part of the Alameda County Water District's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

<b>Index</b>	<b>Page</b>
<b>Financial Trends</b>	38
These schedules contain trend information to help the reader understand how the District's financial performance and well-being have changed over time.	
<b>Revenue Capacity</b>	38
These schedules contain information to help the reader assess the District's most significant local revenues source, the water revenues. Also included in this section is information on the District's second significant source of local revenues, the property tax.	
<b>Debt Capacity</b>	43
These schedules present information to help the reader assess the affordability of the District's current levels of outstanding debt and the District's ability to issue additional debt in the future.	
<b>Demographic and Economic Information</b>	44
These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place.	
<b>Operating Information</b>	47
These schedules contain service and infrastructure data to help the reader understand how the information in the District's financial report relates to the services the District provides and the activities it performs.	



**Table 1**  
**ALAMEDA COUNTY WATER DISTRICT**  
**TEN YEAR SUMMARY OF REVENUES, EXPENSES, and RATE INCREASES (Unaudited)**  
**(in thousands)**

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
<b>OPERATING REVENUES:</b>										
Water Sales	\$ 36,832	\$ 39,659	\$ 40,559	\$ 42,097	\$ 42,833	\$ 48,350	\$ 47,469	\$ 53,355	\$ 57,285	\$ 58,087
Facilities Connection Charges	13,327	7,016	8,662	3,177	1,982	1,849	3,864	3,589	3,276	3,874
Other Revenue	1,711	2,330	1,311	1,396	1,516	3,301	3,691	1,963	4,021	2,090
<b>TOTAL OPERATING REVENUES</b>	<b>\$ 51,870</b>	<b>\$ 49,005</b>	<b>\$ 50,532</b>	<b>\$ 46,670</b>	<b>\$ 46,331</b>	<b>\$ 53,500</b>	<b>\$ 55,024</b>	<b>\$ 58,907</b>	<b>\$ 64,582</b>	<b>\$ 64,051</b>
<b>OPERATING EXPENSES:</b>										
Source of Supply										
Water Purchases	\$ 5,682	\$ 9,162	\$ 8,659	\$ 9,003	\$ 9,435	\$ 9,532	\$ 9,529	\$ 9,616	\$ 12,985	\$ 14,211
Pumping	1,516	1,749	1,714	2,208	2,749	2,604	2,980	2,617	2,666	2,574
Other	3,632	3,501	3,423	4,219	4,440	6,096	6,523	6,002	6,303	6,783
Water Treatment	4,089	4,663	4,677	5,714	6,003	8,944	8,786	9,936	9,732	10,097
Transmission and Distribution	4,197	4,323	4,342	6,865	8,153	9,986	9,423	9,753	10,311	10,089
Admin. of Customer Accounts	2,632	2,249	2,605	2,527	2,526	1,040	995	957	1,056	1,076
Administration and General	6,347	5,961	7,476	4,671	6,175	3,733	4,151	5,310	5,286	6,210
Depreciation	8,218	8,522	8,693	8,780	8,960	9,952	9,926	10,402	10,698	10,811
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 36,313</b>	<b>\$ 40,130</b>	<b>\$ 41,589</b>	<b>\$ 43,987</b>	<b>\$ 48,441</b>	<b>\$ 51,887</b>	<b>\$ 52,313</b>	<b>\$ 54,593</b>	<b>\$ 59,037</b>	<b>\$ 61,851</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>										
Investment Income	\$ 3,275	\$ 4,171	\$ 6,503	\$ 3,731	\$ 2,602	\$ 1,162	\$ 1,608	\$ 2,524	\$ 4,537	\$ 5,344
Property Taxes	3,720	4,429	4,488	4,779	4,867	4,849	1,778	2,575	5,820	6,657
Other Expenses/Loss on Disposal	930	(2,171)	(2,109)	(2,144)	(3,927)	(2,702)	(3,287)	(2,827)	(2,943)	(2,897)
<b>TOTAL NONOPERATING REVENUES (EXPENSES):</b>	<b>\$ 7,925</b>	<b>\$ 6,429</b>	<b>\$ 8,882</b>	<b>\$ 6,366</b>	<b>\$ 3,542</b>	<b>\$ 3,309</b>	<b>\$ 99</b>	<b>\$ 2,272</b>	<b>\$ 7,414</b>	<b>\$ 9,104</b>
<b>% Water Rate Increase (of latter of FY)</b>	<b>0.00</b>	<b>3.50</b>	<b>3.00</b>	<b>5.00</b>	<b>7.00</b>	<b>7.00</b>	<b>7.00*</b>	<b>5.00*</b>	<b>9.00</b>	<b>4.50</b>

Source: Alameda County Water District Finance Department

\*Excludes 6.5% Supplemental Temporary Water Rate Increase

**Table 2**  
**ALAMEDA COUNTY WATER DISTRICT**  
**NINE YEAR SUMMARY OF NET ASSETS (Unaudited)**  
**(in thousands)**

	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
<b>NET ASSETS:</b>									
Invested in capital assets, net of related debt	\$200,912	\$209,696	\$229,151	\$249,640	\$244,634	\$249,646	\$252,840	\$255,535	\$260,757
Restricted for debt service	3,388	3,653	5,187	5,163	7,700	7,679	7,768	7,781	7,662
Unrestricted	82,311	104,053	95,351	78,624	88,432	86,797	94,287	109,334	119,523
<b>TOTAL NET ASSETS:</b>	<b>\$286,611</b>	<b>\$317,402</b>	<b>\$329,689</b>	<b>\$333,427</b>	<b>\$340,766</b>	<b>\$344,122</b>	<b>\$354,895</b>	<b>\$372,650</b>	<b>\$387,942</b>

Source: Alameda County Water District Finance Department

Note: As certain data required by GASB statements no. 34 and 37 was not readily available for years prior to 1999/00, the District elected to show only nine years of data for this schedule.

Table 3  
ALAMEDA COUNTY WATER DISTRICT  
TEN YEAR SUMMARY OF PROPERTY TAX LEVIES/COLLECTIONS (Unaudited)  
(in thousands)

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
<b>Levies:</b>										
1% Tax Allocation	\$ 1,967	\$ 2,033	\$ 2,350	\$ 2,516	\$ 2,727	\$ 2,809	\$ 286 *	\$ 488 *	\$ 3,418	\$ 3,615
State Water Contract Tax	1,433	1,892	1,633	1,810	1,707	1,546	1,182	1,696	2,079	2,516
General Obligation Bonds Tax	---	---	---	---	---	---	---	---	---	---
Total	\$ 3,400	\$ 3,925	\$ 3,983	\$ 4,326	\$ 4,434	\$ 4,355	\$ 1,468	\$ 2,184	\$ 5,497	\$ 6,131
<b>Collections:</b>										
	\$ 3,720	\$ 4,429	\$ 4,488	\$ 4,779	\$ 4,867	\$ 4,849	\$ 1,778	\$ 2,575	\$ 5,820	\$ 6,670

Source: Alameda County Water District Finance Department

\* Portions of District's allocation of countywide 1% tax levy (\$2,817) transferred to Educational Revenue Augmentation Fund (ERAF) by State.

**Table 4**  
**ALAMEDA COUNTY WATER DISTRICT**  
**TEN YEAR SUMMARY OF ASSESSED VALUATION (Unaudited)**

<u>Fiscal Year</u>	<u>Local Secured</u>	<u>Utility</u>	<u>Unsecured</u>	<u>Total</u>
1998/99	21,827,491,551	22,059,030	2,484,185,230	24,333,735,811
1999/00	24,180,829,567	15,459,229	2,429,782,661	26,626,071,457
2000/01	26,105,939,120	17,337,768	2,552,641,580	28,675,918,468
2001/02	28,743,038,716	28,080,044	3,131,946,742	31,903,065,502
2002/03	30,891,676,323	27,497,959	3,052,603,653	33,971,777,935
2003/04	32,948,035,785	17,470,774	2,770,386,806	35,735,893,365
2004/05	34,731,705,104	21,597,932	2,418,796,146	37,172,099,182
2005/06	37,453,608,546	20,099,348	2,556,504,207	40,030,212,101
2006/07	40,105,911,869	17,558,718	2,559,157,694	42,682,628,281
2007/08	42,888,413,868	5,811,812	2,616,332,300	45,510,557,980

Source: California Municipal Statistics, Inc and Alameda County Auditor-Controller's Office

**Table 5**  
**ALAMEDA COUNTY WATER DISTRICT**  
**Ten Year Summary of Secured Tax Charges and Delinquencies (Unaudited)**  
**Fiscal Years 1998/99 to 2007/08**

<u>Fiscal Year</u>	<u>Secured Tax Charge (1)</u>	<u>Amount Delinquent June 30</u>	<u>Percent Delinquent June 30</u>
1998/99	1,737,553.62	47,670.38	2.74 %
1999/00	1,871,409.60	40,913.74	2.19
2000/01	2,044,459.58	46,992.63	2.30
2001/02	2,241,156.56	65,216.30	2.91
2002/03	2,391,410.74	68,161.82	2.85
2003/04	1,454,886.15	23,490.24	1.61
2004/05	1,110,316.56	17,309.15	1.56
2005/06	1,665,268.82	27,861.85	1.67
2006/07	2,036,915.58	61,287.17	3.00
2007/08	2,460,174.55	93,253.99	3.80

*(1) The figures above include only information provided by the County, which is the State Water Project override "debt service" levy.*

Source: Alameda County Auditor-Controller



**Table 6**  
**ALAMEDA COUNTY WATER DISTRICT**  
**HISTORICAL and PROJECTED REVENUES, OPERATING EXPENSES and DEBT SERVICE COVERAGE**  
**Fiscal Years 2003/04 – 2012/13 (Unaudited)**  
**(in thousands)**

	Actual					Projected				
	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
<b>Revenues</b>										
Water Sales	\$ 48,350	\$ 47,469	\$ 53,355	\$ 57,285	\$ 58,087	\$ 62,566	\$ 66,072	\$ 69,612	\$ 73,341	\$ 77,254
Investment Income	1,162	1,608	2,524	4,537	5,344	2,872	2,865	2,491	2,221	2,011
Property Taxes (1)	4,849	1,778	2,575	5,820	6,657	6,581	7,154	7,330	7,509	7,672
Development Fees	1,849	3,864	3,589	3,276	3,873	4,301	4,424	4,245	4,359	4,698
Other Revenue	3,301	3,691	1,963	4,021	2,090	4,664	4,348	1,920	3,530	3,240
<b>Total Revenues</b>	<b>59,511</b>	<b>58,410</b>	<b>64,006</b>	<b>74,939</b>	<b>76,051</b>	<b>80,985</b>	<b>84,863</b>	<b>85,598</b>	<b>90,959</b>	<b>94,874</b>
<b>Operating Expenses</b>										
Power Costs	2,604	2,980	2,617	2,666	2,574	2,714	3,913	4,089	4,273	4,465
Other Operating Expenses (2)	8,131	6,869	7,337	4,451	8,247	7,434	7,830	8,055	8,499	8,725
Labor Costs (3)	21,577	22,974	24,475	28,050	25,854	26,546	27,894	28,803	29,737	30,225
Purchased Water (4)	9,532	9,529	9,616	12,985	14,211	12,856	14,340	16,707	19,149	22,995
Aquifer Reclamation Costs	91	35	147	187	154	288	73	67	58	63
<b>Total Expenses</b>	<b>41,935</b>	<b>42,387</b>	<b>44,191</b>	<b>48,339</b>	<b>51,040</b>	<b>49,837</b>	<b>54,050</b>	<b>57,721</b>	<b>61,715</b>	<b>66,473</b>
<b>Net Revenues</b>	<b>\$ 17,576</b>	<b>\$ 16,023</b>	<b>\$ 19,815</b>	<b>\$ 26,600</b>	<b>\$ 25,011</b>	<b>\$ 31,147</b>	<b>\$ 30,813</b>	<b>\$ 27,877</b>	<b>\$ 29,244</b>	<b>\$ 28,401</b>
<b>Maximum Annual Debt Service on Revenue Certificates and Bond</b>										
1998 Refunding Revenue Bond	3,353	3,355	3,358	3,361	3,360	3,359	3,359	3,363	3,361	3,363
2003 Certificates of Participation	638	1,203	1,203	1,203	1,203	1,203	1,203	1,203	1,203	1,203
<b>Total Debt Service</b>	<b>3,991</b>	<b>4,558</b>	<b>4,561</b>	<b>4,564</b>	<b>4,563</b>	<b>4,562</b>	<b>4,562</b>	<b>4,566</b>	<b>4,564</b>	<b>4,566</b>
<b>Ratio of Net Revenues to</b>										
<b>Maximum Annual Debt Service on Revenue Certificates</b>	<b>4.40x</b>	<b>3.52x</b>	<b>4.34x</b>	<b>5.83x</b>	<b>5.48x</b>	<b>6.83x</b>	<b>6.75x</b>	<b>6.11x</b>	<b>6.41x</b>	<b>6.22x</b>

Notes:  
(1) Includes the effects of the 85% State take-away of Ad-Valorem tax revenues for years 2005 and 2006.  
(2) Includes annual inflationary increase of 3.00% beginning in 2009.  
(3) Includes fringe benefits and annual inflationary increase of 3.00% beginning in 2009.  
(4) Per contract schedule.

Source: Alameda County Water District Finance Department

**Table 7**  
**ALAMEDA COUNTY WATER DISTRICT**  
**LARGEST DISTRIBUTION WATER ACCOUNTS (Unaudited)**

1. New United Motor Manufacturing, Inc.
2. Fremont Unified School District
3. City of Fremont
4. Prologis Trust
5. Western Digital Technologies
6. City of Union City
7. Contempo Homeowners Association
8. Newark Unified School District
9. Equity Residential Properties Trust
10. City of Newark

Source: Alameda County Water District Finance Department

**Table 8**  
**LARGEST EMPLOYERS WITHIN THE DISTRICT (Unaudited)**

**CITY OF FREMONT <sup>(1)</sup>**

<u>Employer</u>	<u>Type of Business</u>	<u>Employment</u>
New United Motor Mfg., Inc.	Automobile Manufacturing	5,000
Fremont Unified School District	Education	3,104
Lam Research	Semiconductor Equipment Manufacturing	2,750
Komag	Magnetic Media Manufacturing	1,902
Washington Hospital	Healthcare	1,300
Seagate Magnetics	Research & Development Engineering	1,200
Staff Search	Employment Service	1,200
Avanex Corporation	Processor Manufacturing	1,100
Asyst Technologies, Inc.	Semiconductor Equipment Manufacturing	1,000
Soletron	Electronic Assembly	1,000

**CITY OF UNION CITY <sup>(2)</sup>**

<u>Employer</u>	<u>Type of Business</u>	<u>Employment</u>
Southern Wine & Spirits	Liquor Distributor	725
Wal-Mart	Retailer	580
San Francisco Chronicle	Newspaper Printer	425
Aldworth Company	Transportation/Distribution Personnel	345
Dreyer's Grand Ice Cream	Ice Cream Manufacturer	295
Masonic Home	Retirement Home	294
Caravan Trading Company	Manufacturer of Bakery Products	292
American Licorice	Candy Manufacturing	260
Orcon Corporation	Carpet Seam Tape Manufacturing	225
Coca-Cola Bottling Company	Storage & Bottling Company	225

**CITY OF NEWARK <sup>(3)</sup>**

<u>Employer</u>	<u>Type of Business</u>	<u>Employment</u>
Newark Unified School District	Education	762
City of Newark	Municipal Government	443
WorldPac	Auto Parts Distribution	283
Full Bloom Baking	Food Manufacturer	220
Risk Management Solutions	Risk Management	211
LTD Ceramics	Ceramics Manufacturer	202
Cargill Salt	Salt Manufacturer	180
ADVO	Bulk Mailing Facility	152
Corporate Express	Office Furniture Sales/Distribution	150
Home Depot	Home Improvement Sales	125

Note: City of Fremont, employment numbers are no longer available after 2006.

Source: <sup>(1)</sup> Fremont Economical Development Division, August 2006

<sup>(2)</sup> Union City Economical Development Division, September 2008

<sup>(3)</sup> City of Newark Economical Development Division, September 2008



**Table 9**  
**ALAMEDA COUNTY WATER DISTRICT**  
**TEN YEAR SUMMARY OF DEMOGRAPHIC AND ECONOMIC STATISTICS (Unaudited)**

Calendar Year	Population As of 1/1 (1)	Personal Income (2)	Per Capita Personal Income (2)	Unemployment Rate (3)
1998	295,661	\$ 44,390,480	\$ 31,574	3.0 %
1999	304,006	48,316,845	33,856	2.5
2000	310,999	55,790,773	38,458	2.8
2001	317,930	56,121,667	38,147	3.8
2002	322,532	55,316,772	37,755	5.3
2003	323,275	56,424,129	38,712	5.4
2004	322,473	59,339,211	40,915	4.6
2005	323,123	62,166,468	42,974	4.0
2006	324,210	66,325,334	45,689	3.5
2007	326,873	N/A	N/A	3.7

Note: Personal income and per capita personal income shown are for Alameda County. Data for Alameda County Water District's service area is not available.

Sources: (1) State of California, Department of Finance  
(2) U. S. Department of Commerce, Bureau of Economic Analysis  
(3) U. S. Department of Labor, Bureau of Labor Statistics

**Table 10**  
**ALAMEDA COUNTY WATER DISTRICT**  
**TEN YEAR SUMMARY OF PROPERTY, PLANT & EQUIPMENT (Unaudited)**  
(in thousands)

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
<b>UTILITY PLANT:</b>										
Land	\$ 8,964	\$ 8,972	\$ 9,658	\$ 9,658	\$ 9,594	\$ 9,594	\$ 9,628	\$ 9,668	\$ 9,654	\$ 9,677
Source of Supply	38,071	38,676	38,922	39,128	41,799	41,946	42,190	42,572	43,152	43,783
Pumping Plant	15,332	16,202	16,469	17,107	17,534	17,580	18,284	18,313	18,803	18,946
Water Treatment	76,592	78,487	78,861	79,823	88,904	89,059	109,157	114,030	114,777	115,024
Transmission and Distribution	161,911	167,000	177,343	187,157	192,584	200,209	205,417	211,317	218,371	219,098
General	17,960	18,727	19,354	19,432	19,779	24,771	27,781	32,613	33,274	33,818
Construction in Progress	9,937	11,747	14,806	30,663	39,556	53,788	36,846	31,112	34,908	42,788
	\$ 328,767	\$ 339,811	\$ 355,413	\$ 382,968	\$ 409,750	\$ 436,947	\$ 449,303	\$ 459,625	\$ 472,939	\$ 483,134
Less Accumulated Depreciation	90,934	98,975	107,149	115,080	123,166	132,188	141,019	149,976	161,939	168,605
<b>NET UTILITY PLANT</b>	<b>\$ 237,833</b>	<b>\$ 240,836</b>	<b>\$ 248,264</b>	<b>\$ 267,888</b>	<b>\$ 286,584</b>	<b>\$ 304,759</b>	<b>\$ 308,284</b>	<b>\$ 309,649</b>	<b>\$ 311,000</b>	<b>\$ 314,529</b>

Source: Alameda County Water District Finance Department

**Table 11**  
**ALAMEDA COUNTY WATER DISTRICT**  
**SCHEDULE OF WATER RATES-BIMONTHLY READINGS & BILLINGS**  
**EFFECTIVE FEBRUARY 1, 2008**

<b>COMMODITY CHARGE (All Customers):</b>	<b>Rate Per Hundred <u>Cubic Feet*</u></b>
A. Rate Schedule for Water Service Inside District	\$2.388
B. Rate Schedule for Water Service Outside District	\$2.745
C. Rate Schedule for San Francisco Water Service	\$2.395

\*One hundred cubic feet equals 748 gallons

**BIMONTHLY METER SERVICE CHARGE (All Customers):**

<b>Meter Size <u>(Inch)</u></b>	<b>Inside District &amp; <u>SF Water Service</u></b>	<b>Outside District <u>Water Service</u></b>
5/8 & 3/4	\$ 10.08	\$ 11.59
1	14.44	16.61
1-1/2	25.52	29.35
2	36.59	42.08
3	138.76	159.57
4	200.97	231.12
6	485.10	557.87
8	710.33	816.88
10	1,269.45	1,459.87

**BIMONTHLY CHARGE FOR PRIVATE FIRE SERVICES:**

<b>Detector Check Size <u>(Inch)</u></b>	<b><u>Amount</u></b>
4 or less	\$ 14.40
6	19.20
8	24.00
10	28.80
12	33.60
16	43.20

Source: Alameda County Water District Finance Department

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited the financial statements of Alameda County Water District (District) as of and for the years ended June 30, 2008 and 2007, and have issued our report thereon dated October 17, 2008. We conducted our audit in accordance with generally accepted auditing standards in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether Alameda County Water District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

**Oakland**

180 Grand Ave., Suite 1365  
Oakland, California 94612

**Orange County**

9 Corporate Park, Suite 100  
Irvine, California 92606

**Sacramento**

777 Campus Commons Rd., Suite 200  
Sacramento, California 95825

**San Diego**

4858 Mercury, Suite 106  
San Diego, California 92111

To the Board of Directors  
of the Alameda County Water District  
Fremont, California  
Page 2

A material weakness is a significant deficiency, or combination of significant deficiencies, that resulted in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

*Capricci & Carson*

Oakland, California  
October 17, 2008

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## **APPENDIX C**

### **FORM OF CONTINUING DISCLOSURE CERTIFICATE**

**\$26,340,000**

### **ALAMEDA COUNTY WATER DISTRICT 2009 WATER SYSTEM REFUNDING REVENUE BONDS**

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the the Alameda County Water District (the “District”) in connection with the issuance of the above-named bonds (the “Bonds”). The Bonds are being issued pursuant to that certain Indenture dated as of October 1, 2009 (the “Indenture”), by and between the District and U.S. Bank National Association, as trustee (the “Trustee”) and a resolution (the “Resolution”) adopted by the Board of Directors of the District on September 10, 2009. The District covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with Securities and Exchange Commission (“S.E.C.”) Rule 15c2-12(b)(5).

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

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

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

“Dissemination Agent” shall mean the District, or any successor Dissemination Agent designated in writing by the District and which has filed with the District a written acceptance of such designation.

“Holder” shall mean the person in whose name any Bond shall be registered.

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

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

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



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

### SECTION 3. Provision of Annual Reports.

(a) The District shall, or shall cause the Dissemination Agent to, not later than seven months after the end of the District’s fiscal year (which shall be February 1 of each year, so long as the District’s fiscal year ends on June 30), commencing with the report for the 2008-09 Fiscal Year (which is due not later than February 1, 2010), provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided, that the audited financial statements of the District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the District’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c). The Annual Report shall be submitted on a standard form in use by industry participants or other appropriate form and shall identify the Bonds by name and CUSIP number.

(b) Not later than 15 business days prior to said date, the District shall provide the Annual Report to the Dissemination Agent (if other than the District). If the District is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the District shall send a notice to the MSRB in substantially the form attached as Exhibit A.

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

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

- (a) Audited financial statements of the District for the preceding fiscal year, prepared in accordance with the laws of the State of California. If the District’s audited financial statements are not available by the time the Annual Report is required to be provided to the MSRB pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be provided to the MSRB in the same manner as the Annual Report when they become available.

To the extent not included in the audited financial statement of the District, the Annual Report shall also include the following:

- (b) The total number of accounts during the previous fiscal year (as measured by meters installed) in the form of Table 1 of the Official Statement.



- (c) The ten largest distribution water accounts during the previous fiscal year estimated according to annualized calendar year billings in the form of Table 2 of the Official Statement.
- (d) The District's current bi-monthly water charge in the form of Table 3 of the Official Statement.
- (e) Revenues from connection fees during the most recent fiscal year in the form of Table 5.
- (f) Any additional indebtedness incurred during the prior fiscal year which is payable from revenues of the Water System on a parity with the Bonds.
- (g) Total Net Revenues received by the District during the prior fiscal year, and the amount of debt service coverage provided thereby (expressed as a percentage of total Net Revenues to total debt service on the Bonds and any parity debt in such fiscal year).

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

Any or all of the items listed above may be 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) Pursuant to the provisions of this Section 5, the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. Principal and interest payment delinquencies;
2. Non-payment related defaults;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements reflecting financial difficulties;
5. Substitution of credit or liquidity providers, or their failure to perform;
6. Adverse tax opinions or events affecting the tax-exempt status of the Bonds;

7. Modifications to rights of Bond holders;
8. Unscheduled or contingent Bond calls;
9. Defeasances;
10. Release, substitution, or sale of property securing repayment of the Bonds;
11. Rating changes.

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

(c) If the District determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the District shall promptly file a notice of such occurrence with the MSRB in electronic format, accompanied by such identifying information as is prescribed by the MSRB. Notwithstanding the foregoing, notice of the Listed Event described in subsection (a)(8) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Resolution.

SECTION 6. Termination of Reporting Obligation. The District's obligations under this Disclosure Certificate shall terminate upon the legal defeasance or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the District shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

SECTION 7. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to this Disclosure Certificate. The initial Dissemination Agent shall be the District.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the 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 the same manner as for a Listed Event under Section 5(c), 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 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate; provided, that any such action may be instituted only in Superior Court of the State of California in and for the County of Alameda or in U.S. District Court in or nearest to the County. The sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 11. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: October \_\_, 2009.

ALAMEDA COUNTY WATER DISTRICT

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

## APPENDIX D

### INFORMATION ON THE DISTRICT'S SERVICE AREA

The Alameda County Water District covers approximately 100 square miles in southwestern Alameda County. The District includes the City of Union City and most of the incorporated boundaries of the City of Fremont and the City of Newark (collectively, the "Cities"). The center of the District is located about 30 miles south of Oakland and 35 miles southeast of San Francisco.

The District forms part of the highly urbanized and industrialized East Bay, which in turn is part of the nine-county San Francisco Bay Area. Two main line railroads serve the District. Stations of the Bay Area Rapid Transit District (BART) are located at Fremont and Union City, providing convenient transportation for District residents to points in Alameda, Contra Costa, San Mateo and San Francisco Counties. Connecting bus lines serve Marin and Santa Clara Counties from BART terminals.

The District's economy is based largely on manufacturing and distribution. Access to highly developed transportation facilities has resulted in the development of numerous distribution plants. A number of nurseries, orchards and vegetable farms throughout the District provide an agricultural base. The District has benefited from the rapid growth in southern Alameda County, discussed in the following sections of this Appendix.

#### Population

The District serves virtually all of the developed areas of Fremont, Newark and Union City. The combined population of these three Cities as of January 1, 2009 totaled 333,648, according to estimates by the State Department of Finance.

#### POPULATION GROWTH, 1999-2008 County of Alameda

Year	County of Alameda	
	Population	% Change
1999	1,423,529	—
2000	1,453,116	2.08%
2001	1,477,249	1.66
2002	1,487,651	0.70
2003	1,492,131	0.30
2004	1,496,763	0.31
2005	1,500,805	0.27
2006	1,512,062	0.75
2007	1,528,679	1.10
2008	1,548,492	1.30

*Source: California Department of Finance for July 1.*

## POPULATION DATA FOR THE CITIES

<u>Year</u>	<u>City of Fremont</u>	<u>City of Newark</u>	<u>City of Union City</u>
2005	209,558	43,523	70,387
2006	209,890	43,431	71,063
2007	211,006	43,556	72,072
2008	213,124	43,793	73,269
2009	215,636	44,035	73,977

Source: California Department of Finance for January 1.

## Employment

The following table summarizes wage and salary employment in the County from 2003 to 2007. Overall growth in total wage and salary employment in the County between 2003 and 2007 was 1%. Services and government are the largest employment sectors in the County.

### ANNUAL AVERAGE WAGE AND SALARY EMPLOYMENT Alameda County 2003-2007 <sup>(1)</sup>

<u>Industry</u>	<u>Employment <sup>(2)</sup></u>				
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Total Farm	600	700	700	800	800
Manufacturing	77,400	77,600	75,800	75,600	73,300
Services	575,300	567,500	573,300	581,800	586,500
Wholesale Trade	41,300	40,200	39,700	39,700	39,700
Retail Trade	68,400	67,200	68,100	69,300	68,900
Transportation, Warehousing and Utilities	28,100	26,600	26,700	26,600	27,300
Finance and Insurance	24,300	24,400	24,400	24,700	23,000
Government	132,100	130,400	129,800	133,500	137,100
Total	947,500	934,600	938,500	952,000	956,600

<sup>(1)</sup> Most recent data available.

<sup>(2)</sup> Employment is reported by place of work; it does not include persons involved in labor-management disputes. Figures are rounded to the nearest hundred.

Source: California Employment Development Department.

The following table summarizes civilian labor force, employment and unemployment in the County from 2004 to 2008. The County's civilian labor force was 3% greater in 2008 than in 2004. The employed labor force in the County was 3% greater in 2008 than in 2004.

The unemployment rate in the County for 2008 was 6.2%. In contrast, the average unemployment rate in California for 2008 was 7.2%.

**CIVILIAN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT**  
**Alameda County**  
**Annual Averages, 2004-2008**

Year	Civilian Labor Force	Employed Labor Force <sup>(1)</sup>	Unemployed Labor Force <sup>(2)</sup>	Unemployment Rate <sup>(3)</sup>
2004	744,500	700,700	43,800	5.9%
2005	738,300	700,400	38,000	5.1
2006	741,700	708,700	32,900	4.4
2007	753,000	717,600	35,400	4.7
2008	766,500	719,100	47,400	6.2

<sup>(1)</sup> Includes persons involved in labor-management trade disputes.

<sup>(2)</sup> Includes all persons without jobs who are actively seeking work.

<sup>(3)</sup> The unemployment rate is computed from unrounded data; therefore, it may differ from rates computed from rounded figures in this table.

Source: California Employment Development Department.

**LARGEST EMPLOYERS WITHIN THE DISTRICT**  
**2009<sup>(1)</sup>**

<b>Employer</b>	<b>Type of Business</b>	<b>Employment</b>
<b>Fremont:</b>		
New United Motor Mfg., Inc. (NUMMI)	Automobile Manufacturing	5,000 <sup>(2)</sup>
Fremont Unified School District	Education	3,104
Lam Research	Semiconductor Equipment Manufacturing	2,750
Komag, Inc.	Magnetic Media Manufacturing	1,902
Washington Hospital	Healthcare	1,300
Seagate Magnetics	Research & Development Engineering	1,200
Staff Search	Employment Service	1,200
Avanex Corporation	Processor Manufacturing	1,100
Asyst Technologies, Inc.	Semiconductor Equipment Manufacturing	1,000
Solectron	Electronic Assembly	1,000

*Source: Fremont Economical Development Division, August 2006.*

<b>Newark:</b>		
Newark Unified School District	Education	731
City of Newark	Municipal Government	337
WorldPac	Auto Parts Distribution	290
Risk Management Solutions	Risk Management	240
Full Bloom Baking	Food Manufacturer	203
Valassis	Bulk Mailing Facility	184
Cargill Salt	Salt Manufacturer	182
Corporate Express	Office Furniture Sales/Distribution	130
Home Depot	Home Improvement Sales	127

*Source: City of Newark Economic Development Division, August 2009.*

<b>Union City:</b>		
Southern Wine & Spirit	Liquor Distributor	725
Wal-Mart	Retailer	580
San Francisco Chronicle	Newspaper Printer	425
Aldworth Company	Transportation/Distribution Personnel	345
Dryers Ice Cream	Ice Cream Manufacturing	295
Masonic Home	Retirement Home	294
Caravan Trading Company	Manufacturer of Bakery Products	292
American Licorice	Candy Manufacturing	260
Orcon Corporation	Carpet Seam Tape Manufacturing	225
Coca Cola Bottling	Storage & Bottling Company	225

*Source: Union City Economical Development Division, August 2009.*

<sup>(1)</sup> The employment numbers for Newark and Union City are from August 2009, but the employment numbers for the City of Fremont are from August 2006, which is the most recent data available. Employment numbers were no longer available from the Fremont Economical Development Division after 2006.

<sup>(2)</sup> NUMMI is a joint venture of General Motors and Toyota. In June 2009, GM announced its intention to pull out of the joint venture and halt production of GM vehicles at the NUMMI plant as part of its bankruptcy restructuring. As of the date of this Official Statement, the plant continues to produce Toyota vehicles. However, Toyota has recently announced its intention to discontinue all production at the NUMMI facility as of March 2010.



## Commerce

Retail sales in the Cities accounted for 18.7% of the total retail sales in the County in 2007. The following tables show annual taxable sales in the Cities and the County from 2003 to 2007.

### TAXABLE SALES County of Alameda (Dollars in Thousands) 2003-2007<sup>(1)</sup>

	2003	2004	2005	2006	2007
Apparel	\$ 519,274	\$ 566,713	\$ 625,984	\$ 641,261	\$ 666,247
General Merchandise	1,904,012	1,989,603	2,087,101	2,236,412	2,292,279
Food Stores	733,608	732,950	744,339	759,659	801,916
Eating and Drinking	1,542,242	1,621,608	1,709,868	1,832,279	1,953,544
Home Furnishings & Appliances	797,883	808,098	843,587	843,210	811,390
Building Materials	1,315,685	1,508,037	1,581,211	1,597,911	1,504,738
Motor Vehicles and Parts	2,931,258	2,924,985	2,987,795	2,934,975	2,912,074
Service Stations	1,133,991	1,309,013	1,518,337	1,671,074	1,831,042
Other Retail Stores	2,684,196	2,882,835	3,130,260	3,139,633	2,891,710
Total Retail Stores	\$13,562,149	\$14,343,842	\$15,228,482	\$15,656,414	\$15,664,940
Business and Personal Services	1,092,232	1,142,550	1,061,582	1,115,465	1,068,985
All Other Outlets	6,720,648	7,509,973	7,952,917	8,451,505	9,097,215
Total All Outlets	\$21,375,029	\$22,996,365	\$24,242,981	\$25,223,384	\$25,831,140
Annual Percentage Change	—	7.6%	5.4%	4.0%	2.4%

<sup>(1)</sup> Most recent data available.

Source: California State Board of Equalization.

The table below provides a history of outlets and taxable sales for the past five years in each of the Cities.

### TAXABLE TRANSACTIONS ALAMEDA COUNTY WATER DISTRICT CITIES (Dollars in Thousands) 2003-2007<sup>(1)</sup>

Calendar Year	City of Fremont		City of Newark		City of Union City	
	Permits	Sales	Permits	Sales	Permits	Sales
2003	5,381	\$2,112,936	1,234	\$1,064,741	1,133	\$649,739
2004	5,446	2,403,707	1,235	1,102,932	1,190	709,606
2005	5,419	2,647,214	1,226	1,050,621	1,143	714,523
2006	5,220	2,915,868	1,181	956,485	1,164	764,379
2007	5,110	3,142,082	1,178	891,029	1,193	805,408

<sup>(1)</sup> Most recent data available.

Source: California State Board of Equalization.

## Construction

Construction activity in the County is summarized in the following tables with respect to building permit valuations and number of dwelling units constructed.

### BUILDING PERMITS AND VALUATIONS County of Alameda 2004-2008

	2004	2005	2006	2007	2008
Valuation (\$000):					
Residential	\$1,533,318	\$1,394,366	\$1,529,481	\$1,079,746	\$ 725,645
Non-residential	705,734	773,737	816,196	890,775	810,431
Total	\$2,239,052	\$2,168,103	\$2,345,677	\$1,970,521	\$1,536,076
Residential Units:					
Single family	2,269	1,518	1,681	1,340	761
Multiple family	3,422	2,898	4,035	1,911	1,296
Total	5,691	4,416	5,716	3,251	2,057

Source: Construction Industry Research Board.

The table below summarizes annual building permit activity for the Cities since 2004.

**BUILDING PERMIT VALUATION  
2004-2008**

	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
<b>CITY OF FREMONT:</b>					
Residential	\$116,679,277	\$185,903,442	\$130,781,630	\$151,896,502	\$119,381,813
Nonresidential	185,183,225	173,730,297	152,521,960	158,825,585	169,415,926
Total	<u>\$301,862,502</u>	<u>\$359,633,739</u>	<u>\$283,303,590</u>	<u>\$310,722,087</u>	<u>\$288,797,739</u>
<b>No. of New Dwelling Units:</b>					
Single	142	157	155	188	171
Multiple	130	394	97	217	110
Total	<u>272</u>	<u>551</u>	<u>252</u>	<u>405</u>	<u>281</u>
<b>CITY OF NEWARK:</b>					
Residential	\$ 8,058,459	\$ 7,937,898	\$ 8,599,199	\$ 9,869,881	\$ 7,773,081
Nonresidential	20,824,000	25,647,000	40,516,085	12,304,000	13,632,887
Total	<u>\$28,882,459</u>	<u>\$33,584,898</u>	<u>\$49,115,284</u>	<u>\$22,173,881</u>	<u>\$21,405,968</u>
<b>No. of New Dwelling Units:</b>					
Single	3	2	3	6	1
Multiple	0	0	2	0	0
Total	<u>3</u>	<u>2</u>	<u>5</u>	<u>6</u>	<u>1</u>
<b>CITY OF UNION CITY:</b>					
Residential	\$63,631,911	\$44,047,277	\$82,567,319	\$101,909,745	\$10,033,794*
Nonresidential	27,821,770	18,138,777	11,020,222	31,739,556	50,818,427
Total	<u>\$91,453,681</u>	<u>\$62,186,054</u>	<u>\$93,587,541</u>	<u>\$133,649,301</u>	<u>\$60,852,221</u>
<b>No. of New Dwelling Units:</b>					
Single	130	111	266	165	19
Multiple	202	5	22	417	2
Total	<u>332</u>	<u>116</u>	<u>288</u>	<u>582</u>	<u>21*</u>

\* Decline due to the recent general economic downturn.  
Source: Construction Industry Research Board.

## Education

Public educational services in the District are provided by the Fremont Unified School District, the Newark Unified School District and the New Haven Unified School District (Union City area). Each of these school systems provides instruction from kindergarten through high school. There are also several continuing education and higher learning schools in the District.

## **Utilities**

Utility services in the District are furnished by the following:

Gas and Electricity Service: Pacific Gas and Electric Co.  
Telephone: AT&T  
Water: Alameda County Water District  
Sewer: Union Sanitary District  
Cable: Comcast

## **City of Fremont**

Located on the southeast side of the San Francisco Bay, Fremont is a city of over 215,000 people with an area of 92-square miles, making it the fourth most populous city in the Bay Area and California's fifth largest city in area.

The City of Fremont was incorporated January 23, 1956 as a general law city, combining the former communities of Centerville, Irvington, Mission San Jose, Niles and Warm Springs into one City. The City is named after General John G. Fremont.

Fremont has the council-manager form of government. The City Council, including four Councilmembers and the Mayor, is elected by citizens of Fremont, adopts the City's budget and makes all major policy decisions. The City Council appoints a City Manager, who hires all City staff and manages the day-to-day business of the City. Advisory bodies advise the City Council and identify issues before the Council makes final decisions.

Fremont has extensive open space. The western quarter of the City is part of the San Francisco Bay National Wildlife Refuge, and the eastern quarter is located in virtually undeveloped hills. There are 22 miles of San Francisco Bay shoreline within the City limits. The 412-acre Central Park includes Lake Elizabeth and the Civic Center, which provide a unique civic and recreational complex in the center of the City.

## **City of Newark**

Situated in the west central part of the District, Newark has been a center of salt production since 1852. Like the other two cities served by the District, Newark has a well-developed industrial base. The City was incorporated September 22, 1955 and operates a general law city under California statutes. It is located in the San Francisco East Bay Area, with the cities of Fremont and Union City as neighbors. The City's current population is approximately 44,000, with the workday population exceeding 100,000. The area encompassed by the incorporated City of Newark is approximately 13 square miles.

The City employs the council-manager form of government, with four councilmen elected at large to serve four-year overlapping terms. The Mayor is directly elected for a two-year term.

Newark has a diversified industrial- and retail-based economy. There are several manufacturing plants in the community area. Leading manufacturers include computer

network servers, semi-conductors, salt processing, glass products, food processing and electronic components. Newark is home to one of Alameda County's major shopping malls, NewPark Mall, as well as an auto mall.

### **City of Union City**

Union City is the site of the first successful beet sugar mill in the United States. The mill closed in 1975 after 106 years of operation. Today Union City is a growing industrial and residential city, and it is home to a growing number of retail outlets, including the highly popular Union Landing Shopping Plaza, which is anchored by the Century 25 theater complex, one of the top grossing multiplexes in the country.

Union City was incorporated January 13, 1959 as a general law city, combining the former communities of Alvarado and Decoto, with a Council/Manager form of government. The City Council consists of the mayor and four council members elected from the city at large, rather than by district, each for four-year terms.

The City has a population of approximately 74,000 people. Within the City are 1,497 acres zoned for industry, including Union City-Alvarado Industrial Park, Central Bay Industrial Park and Union City Industrial Park. Several manufacturing plants in the City produce a wide variety of products, led by food processing and metal processing. The City is also an important distribution center by virtue of its location on two main-line railroads, the heavily-traveled Highway 880, and its proximity to the Hayward-San Mateo Bridge leading to the San Francisco Peninsula. It is 18 square miles in size and bounded by the City of Hayward to the north and west and by the City of Fremont to the south and east.

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**APPENDIX E**  
**PROPOSED FORM OF OPINION OF BOND COUNSEL**

[Closing Date]

Board of Directors  
Alameda County Water District  
Fremont, California

Alameda County Water District  
2009 Water System Refunding Revenue Bonds  
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the Alameda County Water District (the “District”) in connection with issuance of \$26,340,000 aggregate principal amount of Alameda County Water District 2009 Water System Refunding Revenue Bonds (the “Bonds”), issued pursuant to an Indenture, dated as of October 1, 2009 (the “Indenture”), between the District and U.S. Bank National Association, as trustee (the “Trustee”). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

In such connection, we have reviewed the Indenture, the Tax Certificate of the District, dated the date hereof (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 opinion speaks only as of its date and is not intended to, and may not, be relied upon in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the District. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions,

omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Indenture and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against county water districts in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the assets described in or as subject to the lien of the Indenture or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such assets. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

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

1. The Bonds constitute valid and binding special obligations of the District, and are payable solely from the Net Revenues (as that term is defined in the Indenture) and certain other funds held under the Indenture.

2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the District.

3. Interest on the Bonds is excluded from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per



## **APPENDIX F**

### **BOOK-ENTRY ONLY SYSTEM**

DTC will act as securities depository for the Bonds. The Bonds will be executed and delivered as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Bonds in the initial aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity 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, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission.

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee; Cede & Co. or such other name as

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

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

Redemption notices will be sent to DTC. If less than all of the Bonds with a particular stated maturity are being prepaid, DTC's practice is to determine by lot the amount of the interest of each Direct Payment in such Bonds to be prepaid.

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

Payments of principal, premium, if any, interest and other payments evidenced by the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Trustee on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Trustee or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments of principal, premium, if any, interest and other payments evidenced by the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Trustee. Disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the District or the Trustee.

The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository).

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.

The District cannot and does not give any assurances that DTC Direct Participants or Indirect Participants or others will distribute payments with respect to the Bonds received by DTC or its nominee as the registered Owner, or any redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or that DTC will service and act in the manner described in this Official Statement.

The District and the Trustee cannot and do not give any assurances that DTC will distribute to Participants, or that Participants or others will distribute payments of principal interest or any premium with respect to the Bonds paid to DTC or its nominee as the registered Owner, or any redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. The District and the Trustee are not responsible or liable for the failure of DTC or any Participants to make any payment or give any notice to a Beneficial Owner with respect to the Bonds or any error or delay relating thereto.

The foregoing description of the procedures and record-keeping with respect to beneficial ownership interests in the Bonds, payment of principal, interest and other payments with respect to the Bonds to Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interests in such Bonds and other related transactions by and between DTC, the Participants and the Beneficial Owners is based on information provided by DTC. Accordingly, the District takes no responsibility for the accuracy or completeness thereof. So long as the Bonds are in book-entry only form, the references in the Official Statement to the Owners or the registered Owners of the Bonds shall mean DTC, and not the Beneficial Owners of the Bonds.

**Discontinuance of DTC Service.** In the event that (a) DTC determines not to continue to act as securities depository for the Bonds, or (b) the District determines to remove DTC from its functions as a depository, DTC's role as securities depository for the Bonds and use of the book-entry system will be discontinued. If the District fails to select a qualified securities depository to replace DTC, the District will cause the Trustee to execute and deliver new Bonds in fully registered form in such denominations numbered in the manner determined by the Trustee and registered in the names of such persons as are requested by the Beneficial Owners thereof. Upon such registration, such persons in whose names the Bonds are registered will become the registered Owners of the Bonds for all purposes.

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