

Fitch: F1+
Moody's: P-1
S&P: A-1+



\$100,000,000
Commercial Paper Notes, Series 4

The Series 4 Notes (the "Series 4 Notes") offered hereby are part of an issue of Commercial Paper Notes of the San Diego County Water Authority (the "Water Authority") which are issued from time to time pursuant to the Issuing and Paying Agent Agreement. The Series 4 Notes are issued as interest-bearing obligations, in book-entry form, in denominations of \$100,000 and integral multiples of \$1,000 in excess thereof. The Water Authority has appointed Barclays Capital Inc., Citigroup Global Markets Inc., Goldman, Sachs & Co., J.P. Morgan Securities LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as co-dealers for the Series 4 Notes.

On June 29, 2011, Orrick, Herrington & Sutcliffe LLP, San Francisco, California, Bond Counsel to the Water Authority, delivered its opinion that, based on an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 4 Notes, when issued in accordance with the Issuing and Paying Agent Agreement and the Tax Certificate, is excluded from gross income for federal income tax purposes and is exempt from the State of California personal income taxes. Bond Counsel's opinion also stated that interest on the Series 4 Notes is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observed that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expressed no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series 4 Notes. See "TAX EXEMPTION" herein.

The Series 4 Notes constitute limited obligations of the Water Authority, payable solely from a pledge of Net Water Revenues (as defined herein), and neither the full faith and credit nor the taxing power of the Water Authority, the State of California or any of its political subdivisions is pledged for the payment thereof. Payment of the Series 4 Notes from Net Water Revenues is subordinate to the payment of any Prior Obligations (as defined herein) presently outstanding or hereafter incurred by the Water Authority in accordance with the General Resolution (as defined herein). The Water Authority has entered into a revolving credit agreement (the "Liquidity Agreement") with Barclays Bank PLC (the "Bank"), pursuant to which the Bank has agreed, subject to certain conditions precedent, to provide funds in an amount not to exceed \$100,000,000 for the payment of the principal of the Series 4 Notes.

UNDER CERTAIN CIRCUMSTANCES, THE OBLIGATION OF THE BANK TO MAKE ADVANCES UNDER THE LIQUIDITY AGREEMENT WILL TERMINATE OR BE SUSPENDED IMMEDIATELY, AUTOMATICALLY AND WITHOUT NOTICE TO HOLDERS OF THE SERIES 4 NOTES. IN SUCH EVENT, SUFFICIENT FUNDS MAY NOT BE AVAILABLE TO PAY SUCH SERIES 4 NOTES.

BofA Merrill Lynch
Citi

Goldman, Sachs & Co.

Barclays Capital
J.P. Morgan

Dated: June 29, 2011

\$100,000,000
San Diego County Water Authority
Commercial Paper Notes, Series 4

INFORMATION CONCERNING THE OFFERING

Barclays Capital Inc., Citigroup Global Markets Inc., Goldman, Sachs & Co., J.P. Morgan Securities LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated (collectively the “Dealers”) have been appointed to serve as exclusive dealers for the Commercial Paper Notes, Series 4 (the “Series 4 Notes”) of the San Diego County Water Authority (the “Water Authority”). This Offering Memorandum relates to the offering, from time to time, of up to \$100,000,000 aggregate principal amount of the Series 4 Notes under the Issuing and Paying Agent Agreement (Series 4), dated as of June 1, 2011 (the “Issuing and Paying Agent Agreement”) between the Water Authority and Deutsche Bank Trust Company Americas (the “Issuing and Paying Agent”). The aggregate principal amount of the Series 4 Notes outstanding may change from time to time as provided in the Issuing and Paying Agent Agreement.

THE COMMERCIAL PAPER NOTES

Purpose of the Series 4 Notes

Proceeds of the Series 4 Notes were used to provide funds to refinance the cost of design, acquisition and construction of water system improvements in furtherance of the Water Authority’s Capital Improvement Program.

Description of the Series 4 Notes

The Series 4 Notes will be dated the date of their respective authentication, will be issued as interest bearing obligations in denominations of \$100,000 and integral multiples of \$1,000 in excess thereof and, except as described below, will be issued in book-entry form through the book-entry system of The Depository Trust Company (“DTC”). Each note will bear interest from its date of issuance at the rate determined at the date of issuance payable at maturity. The Series 4 Notes will mature no later than 270 days from the date of issuance; provided that, so long as the Liquidity Facility (hereinafter defined) is in effect, no Series 4 Notes may be issued with a maturity date after the business day prior to the scheduled expiration date of the Liquidity Facility or, if an Alternate Facility will be available with respect to the Series 4 Notes, after the business day prior to the scheduled expiration date of the Alternate Facility. Interest is computed on the basis of a 365- or 366-day year, and the actual number of days elapsed. The principal of and interest on the Series 4 Notes in book-entry form will be paid at maturity to DTC and distributed by it to its participants as described below.

The Series 4 Notes will be delivered as fully registered certificates and registered in the name of Cede & Co., as registered owner and nominee for DTC. Beneficial ownership interests in the Series 4 Notes will be available in book-entry form only, and purchasers of the Series 4 Notes will not receive certificates representing their interests in the Series 4 Notes purchased. While held in book-entry only form, the Issuing and Paying Agent will make all payments of principal and interest with respect to the Series 4 Notes by wire transfer to DTC or its nominee as the sole registered owner of the Series 4 Notes. Payments to the beneficial owners are the

responsibility of DTC and its participants. See Appendix D–“Information Regarding DTC and the Book-Entry Only System.”

Security for the Series 4 Notes

The Water Authority expects to pay the principal of the Series 4 Notes with the proceeds of additional Series 4 Notes until the Water Authority provides permanent financing for those water system improvements financed with the Series 4 Notes or until, from time to time, revenues of the Water Authority are available to pay for the Series 4 Notes.

The Series 4 Notes constitute limited obligations of the Water Authority, payable solely from Net Water Revenues, and neither the full faith and credit nor the taxing power of the Water Authority, the State of California or any of its political subdivisions is pledged for the payment thereof. Payment of the Series 4 Notes from Net Water Revenues is subordinate to the payment of any Prior Obligations (defined below) presently outstanding or hereafter incurred by the Water Authority in accordance with Resolution 89-21 of the Water Authority, adopted on May 11, 1989, as supplemented by Resolution No. 97-52, adopted by the Board of Directors of the Water Authority on December 11, 1997 and by Resolution No. 09-23, adopted by the Board of Directors on December 17, 2009 (as supplemented, the “General Resolution”).

Pursuant to a Revolving Credit and Term Loan Agreement dated as of June 29, 2011 (the “Liquidity Agreement”) between the Water Authority and Barclays Bank PLC (the “Bank”), the Bank has agreed, subject to certain conditions precedent, to provide funds in an amount not to exceed \$100,000,000 for the payment of Series 4 Notes principal when due. Unless terminated earlier or extended in accordance with its terms, the Liquidity Agreement will terminate on June 28, 2013. See “SUMMARY OF CERTAIN PROVISIONS OF THE LIQUIDITY AGREEMENT” herein.

UNDER CERTAIN CIRCUMSTANCES, THE OBLIGATION OF THE BANK TO MAKE ADVANCES UNDER THE LIQUIDITY AGREEMENT WILL TERMINATE OR BE SUSPENDED IMMEDIATELY, AUTOMATICALLY AND WITHOUT NOTICE TO HOLDERS OF THE SERIES 4 NOTES. IN SUCH EVENT, SUFFICIENT FUNDS MAY NOT BE AVAILABLE TO PAY SUCH SERIES 4 NOTES.

The Water Authority may deliver an Alternate Facility in place of the Liquidity Agreement; provided, no such delivery may result in the termination of the Liquidity Agreement then in effect so long as Series 4 Notes for the payment of the principal of which such Liquidity Agreement is providing liquidity remain outstanding.

To provide security for the payment of the principal of and interest on the Series 4 Notes as the same shall become due and payable, the Issuing and Paying Agent Agreement grants a lien on and pledge of, subject only to the provisions of the Issuing and Paying Agent Agreement permitting the application thereof for purposes of the terms and conditions set forth therein, (i) the proceeds from the sale of Series 4 Notes issued pursuant to the Issuing and Paying Agent Agreement for the purpose of refinancing, renewing or refunding the Series 4 Notes, (ii) the amount held in the Commercial Paper Note Payment Fund (on a pro rata basis with any other commercial paper notes secured by such fund) until the amounts deposited therein are used for

authorized purposes, (iii) amounts held by the Issuing and Paying Agent in the Issuing and Paying Agent Fund, (iv) the amounts held in the Commercial Paper Note Construction Fund (on a pro rata basis with any other commercial paper notes secured by such fund), (v) the proceeds of any other indebtedness of the Water Authority issued or incurred solely for the payment of principal of and interest on the Series 4 Notes, (vi) any other moneys of the Water Authority hereafter pledged by the Water Authority for the payment of principal of and interest on the Series 4 Notes and (vii) the proceeds of Advances (as defined in the Liquidity Agreement), and the principal of and interest on the Series 4 Notes are equally and ratably secured by and payable from a lien on and pledge of the sources hereinabove identified in clauses (i) through (vii) above, subject and subordinate only to the exceptions noted therein.

Additionally, to provide for the payment of the principal of and interest on the Series 4 Notes as the same shall become due and payable, the Water Authority shall, from Net Water Revenues on deposit in the Subordinate Obligations Payment Fund established under the General Resolution on a parity with all other Subordinate Obligations (as defined herein), deposit in the Commercial Paper Note Payment Fund from time to time amounts sufficient, together with other moneys available therefor for the timely payment of principal of and interest on the Series 4 Notes. Such payment shall be subject and subordinate to the application of Net Water Revenues to the payment of principal and accreted value of, premium, if any, interest on, and any reserve fund requirements for, or other obligations with respect to, any senior obligations of the Water Authority.

Unless the Series 4 Notes are paid from the source described in the clauses (i) through (vii) above, such payment is to be made from Net Water Revenues deposited in the Commercial Paper Note Payment Fund.

For purposes of the foregoing:

“General Resolution” means Resolution No. 89-21 adopted May 11, 1989, entitled “A Resolution of the Board of Directors of the San Diego County Water Authority Providing for the Allocation of Water System Revenues and Establishing Covenants to Secure the Payment of Obligations Payable from Net Water Revenues,” as supplemented by Resolution No. 97-52, adopted by the Board of Directors of the Water Authority on December 11, 1997 and Resolution No. 09-23, adopted by the Board of Directors on December 17, 2009, as it may be further modified, amended or supplemented.

“Net Water Revenues” means, for any Fiscal Year or other period, the Water Revenues during such fiscal year or period, less the Maintenance and Operation Costs during such fiscal year or period.

“Water Revenues” means Current Water Revenues plus deposits to the Water Revenue Fund established under the General Resolution from amounts on deposit in the Rate Stabilization Fund, established under the General Resolution, less amounts transferred to the Rate Stabilization Fund.

“Current Water Revenues” means all gross income and revenue received or receivable by the Water Authority from the ownership or operation of the Water System, determined in

accordance with Generally Accepted Accounting Principles, including all rates, fees and charges (including capacity charges, standby charges, and infrastructure access charges) received by the Water Authority for the Water Service and other services of the Water System and all other income and revenue howsoever derived by the Water Authority from the ownership or operation of the Water System or arising from the Water System, and also including investment income with respect to certain funds and accounts.

“Maintenance and Operation Costs” means all costs paid or incurred by the Water Authority for maintaining and operating the Water System, determined in accordance with Generally Accepted Accounting Principles, including all costs of water purchased by the Water Authority for resale, and including all expenses of management and repair and other expenses necessary to maintain and preserve the Water System in good repair and working order, and including all administrative costs of the Water Authority, such as salaries and wages of employees, overhead, taxes (if any) and insurance premiums, and including all other costs of the Water Authority or charges required to be paid by it to comply with the terms of the General Resolution or of any resolution authorizing the execution of any Contract or of such Contract or of any resolution authorizing the issuance of any Bonds or of such Bonds, such as compensation, reimbursement and indemnification of the trustee, seller, lender or lessor for any such Contracts or Bonds and fees and expenses of Independent Certified Public Accountants; but excluding in all cases (1) depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles, premiums and discounts, (2) interest expense and (3) amounts paid from other than Water Revenues (including, but not limited to, amounts paid from the proceeds of ad valorem property taxes.)

“Prior Obligations” means the Water Authority’s Water Revenue Certificates of Participation, Series 1998A, 2002A, 2004A and 2008A; the Water Authority’s Water Revenue Refunding Certificates of Participation, Series 1997A and 2005A; the San Diego County Water Authority Financing Agency Water Revenue Bonds, Series 2010A and 2010B; any other Bonds, Contracts or evidences of indebtedness or obligations of the Water Authority authorized under the Act payable from Net Water Revenues senior to the Series 4 Notes; and

“Subordinate Obligations” means the Series 4 Notes, the San Diego County Water Authority Commercial Paper Notes, Series 1 (the “Series 1 Notes”), the San Diego County Water Authority Commercial Paper Notes, Series 2 (the “Series 2 Notes”), the San Diego County Water Authority Commercial Paper Notes, Series 5 (the “Series 5 Notes”), the San Diego County Water Authority Commercial Paper Notes, Series 6 (the “Series 6 Notes”) and any other obligations of the Water Authority authorized and executed by the Water Authority under applicable law, the interest and principal payments under and pursuant to which are payable from Net Water Revenues from the Subordinate Obligation Payment Fund as Subordinate Obligations under the General Resolution.

“Bonds” means revenue bonds of the Water Authority principal and interest on which are payable from Net Water Revenues on a parity with the Prior Obligations.

“Contracts” means installment sale agreements, leases or contracts of indebtedness principal and interest with respect to which are payable by the Water Authority from Net Water Revenues on a parity with the Prior Obligations.

“Certificates” means certificates of participation in payments made by the Water Authority pursuant to Contracts.

Rate Covenant

The Water Authority covenants under the General Resolution that it will at all times fix, prescribe and collect or cause to be collected rates, fees and charges for the Water Service which are reasonably fair and non-discriminatory and which will be at least sufficient to yield during the next succeeding fiscal year Net Water Revenues sufficient for the payment of all amounts payable from Net Water Revenues and at least equal to 120% of the Debt Service on all Prior Obligations, for such fiscal year. The Water Authority may make adjustments from time to time in such rates, fees and charges and may make such classifications thereof as it deems necessary, but shall not reduce the rates, fees and charges then in effect unless the Net Water Revenues from such reduced rates, fees and charges will at all times be sufficient to meet the requirements of this covenant.

The Water Authority further covenants under the Issuing and Paying Agreement that it will prescribe, revise and collect such rates and charges for the services, facilities, availability and water of the Water System which, after making allowances for contingencies and error in estimates, will provide Water Revenues at least sufficient to pay the following amounts in the order set forth:

1. Maintenance and Operation Costs;
2. Principal and accreted value of, premium, if any, and interest on all Prior Obligations as and when the same shall become due and payable, and any required deposits into any reserve funds or accounts for the Prior Obligations, all in accordance with the Prior Obligation Documents;
3. To the extent the same are reasonably anticipated by the Water Authority to be paid with Net Water Revenues (e.g., not paid from the proceeds of additional Notes or other refunding obligations), the principal of and interest on the Series 4 Notes and any other amounts due the Bank under the Liquidity Facility when the same shall become due; and
4. Any other obligations which are payable from the Water Revenues.

The Series 4 Notes are Subordinate Obligations payable on a parity with the Series 1 Notes, the Series 2 Notes, the Series 5 Notes, the Series 6 Notes and any other Subordinate Obligations secured by the Subordinate Obligation Payment Fund established under the General Resolution.

THE WATER AUTHORITY

The Water Authority is a public agency created in San Diego County in 1944 under the County Water Authority Act, California Statutes 1943, Chapter 545, as amended (the “Act”). The Water Authority’s primary purpose is to supply water to its member agencies on a wholesale basis in order to fulfill their needs for beneficial uses and purposes. The Water Authority currently serves 24 member agencies, comprised of 6 cities, including the City of San Diego, 17

special districts and the Pendleton Military Reservation. Historically, 75-95% of the water beneficially used in San Diego County is supplied by the Water Authority. The Water Authority is governed by a 36-member Board of Directors, comprised of at least one representative from each of the Water Authority's member agencies. Any member agency may appoint one additional representative for each full five percent (5%) of total assessed value of property taxable for Water Authority purposes which is within the public agency. The City of San Diego has ten representatives on the Board of Directors. Helix Water District, Otay Water District and the Carlsbad Municipal Water District have two representatives. By law, all of San Diego's votes are cast as a block as determined by a majority of the San Diego representatives present at a meeting. A member agency's vote is based on its "total financial contribution" to the Water Authority as determined annually by the Board of Directors. Total financial contribution includes all amounts paid in taxes, assessments, fees and charges to or on behalf of the Water Authority and the Metropolitan Water District of Southern California with respect to property located within each member agency.

Under the Act, the Water Authority is authorized to acquire water and water rights within or outside of the State of California; to develop, store and transport the water, and to provide, sell, and deliver water for beneficial uses and purposes. The Water Authority is also entitled to distribute water not needed or required for beneficial purposes of its member agencies to areas outside the boundaries of the Water Authority.

The Water Authority is also authorized by the Act to utilize any part of its water, and any parts of its facilities used for the development, storage, and transportation of water, to provide, generate, and deliver hydroelectric power, and may acquire, construct, operate and maintain any and all of its facilities for such utilization. Pursuant to contract, the Water Authority is authorized to provide, sell and deliver hydroelectric power to the United States of America, to the State of California for the State Water Project and to any other person engaged in the sale of electric power at retail or wholesale. The Water Authority is also authorized to acquire, construct, own, operate, control or use works for supplying its member agencies with gas or electricity and to purchase, sell and exchange gas and electricity from, to and with any public agency, private company or person engaged in the sale of gas or electricity at retail.

A description of the current member agencies, the Service Area, Water Supply, Water Facilities, and seismic considerations may be found either in the Water Authority's most recent Official Statement or the Water Authority's Continuing Disclosure Annual Report filed annually with the Municipal Securities Rulemaking Board (the "MSRB"). Pursuant to the provisions of the Act, additional entities are authorized to join the Water Authority. The Act also entitles member agencies to withdraw from the Water Authority, subject to certain restrictions.

The Capital Improvement Program

The Water Authority's goal is to provide a safe and reliable supply of water and to assure an operationally flexible water storage, treatment and distribution system to its member agencies. To achieve this goal, the Water Authority has implemented a strategic plan, a component of which is known as the Capital Improvement Program ("CIP").

The Water Authority staff prepares periodic studies to project the future water demands in its service area. These Water Authority studies review the most recent information on member agency projected water demands, demographics and population estimates by the San Diego Association of Governments. These projections are incorporated into the CIP.

A description of the Water Authority's Long-Range Financing Plan, the Capital Improvement Program and other obligations issued to fund the CIP may be found either in the Water Authority's most recent Official Statement or the Water Authority's Continuing Disclosure Annual Report filed annually with the MSRB. See "OTHER MATTERS."

Sources of Revenue

The Water Authority's Board of Directors determines the water rates. Water rates generate the majority of the Water Authority's revenue stream. The rates are not subject to regulation by the California Public Utilities Commission or by any other local, state or federal agency. The Water Authority bills member agencies for water deliveries monthly. The Water Authority is required to set rates which are reasonable and nondiscriminatory. See "Rate Covenant" above. The Water Authority also imposes standby charges, capacity charges and infrastructure access charges and receives property tax revenues and in-lieu charges. In the Fiscal Year ended June 30, 2010, approximately 20% of the Water Authority's gross revenues were from fixed sources (standby charges, infrastructure access charges, property tax revenues and in-lieu charges). The imposition of taxes, assessments, rates and charges by the Water Authority is subject to various constitutional and statutory limitations, including some requirements of Articles XIII A, XIII B, XIII C and XIII D of the California Constitution, and are subject to reduction or repeal through the initiative process as provided in Article XIII C of the California Constitution.

Outstanding Debt

As of June 30, 2010, the Water Authority had \$1,993,765,000 aggregate principal amount of Prior Obligations outstanding.

The Series 1 Notes are currently outstanding in the aggregate principal amount of \$110,000,000, with liquidity provided by Bayerische Landesbank. The Series 1 Notes are Subordinate Obligations under the General Resolution and are payable from Net Water Revenues on parity with payment of the Series 4 Notes.

The Series 2 Notes are currently outstanding in the aggregate principal amount of \$100,000,000, with liquidity provided by a line of credit from BNP Paribas, acting through its San Francisco Branch. The Series 2 Notes are Subordinate Obligations under the General Resolution and are payable from Net Water Revenues on parity with payment of the Series 4 Notes.

The Series 4 Notes are currently outstanding in the aggregate principal amount of \$100,000,000.

The Series 5 Notes are currently outstanding in the aggregate principal amount of \$100,000,000, with liquidity provided by a line of credit from Wells Fargo Bank, National

Association. The Series 5 Notes are Subordinate Obligations under the General Resolution and are payable on parity with payment of the Series 4 Notes.

The Series 6 Notes are currently outstanding in the aggregate principal amount of \$50,000,000, with liquidity provided by a line of credit from Citibank, N.A. The Series 6 Notes are Subordinate Obligations under the General Resolution and are payable on parity with payment of the Series 4 Notes.

Investment Policy

The investment policies and practices of the Board of Directors and the Treasurer for the San Diego County Water Authority are based upon limitations placed on it by governing legislative bodies. The investment policy of the Water Authority is reviewed and submitted annually to the Board of Directors of the Water Authority and is subject to change. A copy of the Water Authority's Annual Statement of Investment Policy for Calendar Year 2011 is attached hereto as Appendix C.

Water Authority Financial Statements

The financial statements of the Water Authority for the fiscal year ending June 30, 2010, are attached hereto as Appendix A. Additional financial and operating data relating to the Water Authority's water system may be found in the Water Authority's most recent Continuing Disclosure Annual Report filed annually with the MSRB. See "OTHER MATTERS."

DESCRIPTION OF THE BANK

The following information has been provided by the Bank for inclusion in this Offering Memorandum. None of the Water Authority or the Dealers make any representation as to the accuracy or completeness of this information or as to the absence of material adverse changes with respect to the Bank or its financial condition subsequent to the date hereof.

Barclays Bank PLC is a public limited company registered in England and Wales under number 1026167. The liability of the members of Barclays Bank PLC is limited. It has its registered head office at 1 Churchill Place, London, E14 5HP, United Kingdom (telephone number +44 (0)20 7116 1000). Barclays Bank PLC was incorporated on August 7, 1925, under the Colonial Bank Act 1925, and on October 4, 1971, was registered as a company limited by shares under the Companies Acts 1948 to 1967. Pursuant to The Barclays Bank Act 1984, on January 1, 1985, Barclays Bank was re-registered as a public limited company and its name was changed from "Barclays Bank International Limited" to "Barclays Bank PLC."

Barclays Bank PLC and its subsidiary undertakings (taken together, the "Group") is a major global financial services provider engaged in retail and commercial banking, credit cards, investment banking, wealth management and investment management services. The whole of the issued ordinary share capital of Barclays Bank PLC is beneficially owned by Barclays PLC, which is the ultimate holding company of the Group.

The short-term unsecured obligations of Barclays Bank PLC are rated A-1+ by Standard & Poor's, P-1 by Moody's and F1+ by Fitch Ratings Limited, and the long-term obligations of

Barclays Bank PLC are rated AA- by Standard & Poor's, Aa3 by Moody's and AA- by Fitch Ratings Limited.

Based on the Group's audited financial information for the year ended December 31, 2010, the Group had total assets of £1,490,038 million (2009: £1,379,148 million), total net loans and advances⁽¹⁾ of £465,741 million (2009: £461,359 million), total deposits⁽²⁾ of £423,777 million (2009: £398,901 million), and total shareholders' equity of £62,641 million (2009: £58,699 million) (including non-controlling interests of £3,467 million (2009: £2,774 million)). The profit before tax from continuing operations of the Group for the year ended December 31, 2010 was £6,079 million (2009: £4,559 million) after impairment charges and other credit provisions of £5,672 million (2009: £8,071 million). The financial information in this paragraph is extracted from the audited consolidated financial statements of Barclays Bank PLC for the year ended December 31, 2010.

The delivery of the information concerning Barclays Bank PLC and the Group herein shall not create any implication that there has been no change in the affairs of Barclays Bank PLC and the Group since the date hereof, or that the information contained or referred to herein is correct as of any time subsequent to its date.

Barclays Bank PLC is responsible only for the information contained in this section of the Offering Memorandum and did not participate in the preparation of, or in any way verify the information contained in, any other part of the Offering Memorandum. Accordingly, Barclays Bank PLC assumes no responsibility for and makes no representation or warranty as to the accuracy or completeness of information contained in any other part of the Offering Memorandum.

⁽¹⁾ Total net loans and advances include balances relating to both bank and customer accounts.

⁽²⁾ Total deposits include deposits from bank and customer accounts.

SUMMARY OF CERTAIN PROVISIONS OF THE LIQUIDITY AGREEMENT

General

The following description is a summary of certain provisions of the Liquidity Agreement. Such summary does not purport to be a complete description or restatement of the material provisions of the Liquidity Agreement. Investors should obtain and review a copy of the Liquidity Agreement in order to understand all of the terms of that document.

Subject to the terms and conditions of the Liquidity Agreement, the Bank agrees to make Advances (as defined in the Liquidity Agreement) from time to time on any Business Day (as defined in the Liquidity Agreement) during the Commitment Period (as defined in the Liquidity Agreement) in amounts which, together with the principal amount of any Advances and Term Loans (as defined herein) then outstanding, shall not exceed at any time outstanding the Commitment (as defined in the Liquidity Agreement). Each Advance shall be made solely for the purpose of providing funds to pay the principal of Series 4 Notes on the maturity date thereof to the extent that proceeds of other Series 4 Notes or Net Water Revenues are not available

therefor. The aggregate principal amount of all Advances made on the date of any Advance shall not exceed the Available Commitment (as defined in the Liquidity Agreement) (calculated without giving effect to any Advances made on such date) at 9:00 a.m. (New York City time) on such date. The proceeds of Advances shall not be available to pay interest on Series 4 Notes.

Under certain circumstances described below, the obligation of a Bank to purchase the Series 4 Notes may be immediately suspended or terminated without notice to the holders thereof. In such event, sufficient funds may not be available to purchase Series 4 Notes.

Certain Definitions

For purposes of this Section, the Liquidity Agreement defines “Basic Documents”, “Collateral”, “Debt”, “Prior Obligations” and “Revenues Secured Debt” as follows:

“Basic Documents” means the Issuing and Paying Agent Agreement, the Fee Letter, the Revolving Note, the Term Note, the General Resolution and the Dealer Agreement (each as defined in the Liquidity Agreement).

“Collateral” means those funds and other assets pledged to secure the Series 4 Notes, the Revolving Note and the Term Note pursuant to the Issuing and Paying Agent Agreement and the General Resolution.

“Debt” means (a) all Bonds, Contracts and other evidences of indebtedness or obligations of the Water Authority, including, without limitation, Subordinate Obligations (as defined in the Liquidity Agreement), that are payable from or secured by Net Water Revenues and are evidenced by bonds, debentures, notes or other similar instruments, including, without limitation, the Series 4 Notes, the Revolving Note and the Term Note, (b) all other indebtedness of the Water Authority for borrowed money, (c) obligations of the Water Authority as lessee under any lease of property, real or personal, that, in accordance with GAAP, would be required to be capitalized on a balance sheet of the lessee thereof, (d) obligations of the Water Authority on or with respect to letters of credit, banker’s acceptances or other evidences of indebtedness representing extensions of credit, whether or not representing obligations for borrowed money, (e) all obligations for the deferred purchase price of property or services (other than trade accounts payable occurring in the ordinary course of business), (f) any obligation of the Water Authority guaranteeing or in effect guaranteeing any other Debt, whether directly or indirectly and (g) all obligations arising under or pursuant to any Swap Contract.

“Prior Obligations” means (i) Bonds and Contracts (including Certificates evidencing undivided interests therein), (ii) any bonds, notes, certificates, debentures or other evidence of similar indebtedness issued by or on behalf of the Water Authority secured by a lien on the Collateral ranking senior to or on a parity with the Series 4 Notes, the Revolving Note and the Term Note, (iii) the obligations which are scheduled payments of the Water Authority under any Swap Contract (which are secured pursuant to the Issuing and Paying Agent Agreement by a lien on the Collateral ranking senior to or on a parity with the Series 4 Notes, the Revolving Note and the Term Note) providing interest rate support with respect to any indebtedness issued by or on behalf of the Water Authority pursuant to the Issuing and Paying Agent Agreement by a lien on the Collateral ranking senior to or on a parity with the Series 4 Notes, the Revolving Note and

the Term Note, (iv) any obligation of the Water Authority as lessee under a capital lease secured by a lien on the Collateral ranking senior to or on a parity with the Series 4 Notes, the Revolving Note and the Term Note (x) which is not subject to appropriation or abatement or (y) which is rated by each Rating Agency then rating the Series 4 Notes at a level equal to or higher than the long-term unenhanced debt rating assigned by each such Rating Agency to the Water Authority's Bonds and Contracts (including Certificates evidencing undivided interests therein) and (v) any Guarantee by the Water Authority secured by a lien on the Collateral ranking senior to or on a parity with the Series 4 Notes, the Revolving Note and the Term Note (*provided, however*, that the failure to pay any such Guarantee as a result of any set-off, recoupment or counterclaim or any other defense to payment under such Guarantee by the Water Authority shall not constitute a failure to pay Prior Obligations for purposes of the Liquidity Agreement).

"Revenues Secured Debt" means (i) Bonds, (ii) Contracts, (iii) Reimbursement Payments (other than any such payments that have been accelerated under the applicable Reimbursement Agreement) and (iv) other Debt payable from or secured by Net Water Revenues and described in clauses (a), (c) and (g) of the definition thereof (and in the case of obligations arising under or pursuant to any Swap Contract as described in clause (g) of the definition thereof, only with respect to (A) Swap Contracts that provide interest rate support and (B) obligations that constitute regularly scheduled payments that relate to Bonds, Contracts and other obligations described in clause (a) of the definition thereof) the payment of which is secured by a pledge of or Lien on Net Water Revenues senior to or on a parity with the payment of the Series 4 Notes.

Termination Events

Each of the following events, among others, shall constitute a Termination Event (as defined in the Liquidity Agreement) under the Liquidity Agreement. Reference is made to the Liquidity Agreement for a complete listing of all Termination Events:

(a) the Water Authority shall fail to pay (i) any amount of interest on any Series 4 Notes when the same shall become due and payable in accordance with its terms or (ii) any principal of, or interest on, the Revolving Note, the Term Note, any Advance (as defined in the Liquidity Agreement), or any Term Loan (as defined in the Liquidity Agreement), when the same shall become due and payable in accordance with its terms (other than as a result of the acceleration thereof as a result of certain Events of Default); or

(b) the Water Authority shall fail to pay when due and payable (whether by scheduled maturity, required prepayment or acceleration) any Revenues Secured Debt of the Water Authority, or any interest or premium thereon, and such failure shall continue beyond any applicable period of grace specified in any underlying resolution, indenture, contract or instrument pursuant to which such Revenues Secured Debt has been issued, or pursuant to the provisions of any such resolution, indenture, contract or instrument the maturity of any such Revenues Secured Debt, as a result of a payment default, shall have been or may be accelerated or required to be prepaid prior to the stated maturity thereof; or

(c) one or more final, unappealable judgments or orders for the payment of money which, individually or in the aggregate, equal or exceed \$15,000,000 and are payable from Water Revenues (as defined herein) or attachment against the Water Revenues shall be

rendered against the Water Authority and such judgment or order shall continue unsatisfied, unstayed or undismissed for a period of sixty (60) days; or

(d) (i) The Water Authority shall commence any case, proceeding or other action (A) under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking to have an order for relief entered with respect to it, or seeking to adjudicate it as bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding up, liquidation, dissolution, composition or other relief with respect to it or its Debts payable from or secured by Water Revenues, or (B) seeking appointment of a receiver, trustee, custodian or other similar official for it or for all or any substantial part of the assets of the Water System (as defined in the Liquidity Agreement), or the Water Authority shall make a general assignment for the benefit of its creditors, or a debt moratorium, debt restructuring, or comparable extraordinary restriction on repayment of debt shall have been declared, announced or imposed with respect to the Bonds (as defined in the Liquidity Agreement), or any Revenues Secured Debt; or (ii) there shall be commenced against the Water Authority any case, proceeding or other action of a nature referred to in clause (i) above which (x) results in an order for such relief or in the appointment of a receiver or similar official or (y) remains undismissed, undischarged or unbonded for a period of sixty (60) days; or (iii) there shall be commenced against the Water Authority, any case, proceeding or other action seeking the issuance of a warrant of attachment, execution, restraint or similar process against all or any substantial part of the assets of the Water System or the Water Revenues, which results in the entry of a final and non-appealable order or ruling for any such relief which shall not have been vacated, discharged, or stayed or bonded pending appeal within sixty (60) days from the entry thereof; or (iv) the Water Authority shall take any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts set forth in clause (i), (ii) or (iii) above; or (v) the Water Authority shall admit in writing its inability to pay its debts; or

(e) any provision of the Liquidity Agreement, the Act (as defined herein), the Revolving Note, the Term Note, any Series 4 Note, the Issuing and Paying Agent Agreement or the General Resolution relating to (A) the Water Authority's ability or obligation to make payments of principal or interest on the Series 4 Notes, the Term Note, the Revolving Note, any Advance or any Term Loan or any other Revenues Secured Debt or (B) the validity or enforceability of the pledge of and lien on the Collateral shall at any time and for any reason cease to be valid and binding on the Water Authority or shall be deemed to be null and void, invalid or unenforceable pursuant to a final, nonappealable judgment or order of any court or other Governmental Authority (as defined in the Liquidity Agreement) having jurisdiction over the Water Authority with respect to such matters; or

(f) the Water Authority shall fail to pay when due and payable (whether by scheduled maturity, required prepayment or acceleration) any principal of or interest on any Revenues Secured Debt (other than as described in paragraph (a) under this heading "Termination Events"); or

(g) the long-term unenhanced ratings assigned by Moody's, Fitch and S&P to any of the Bonds, Certificates or Subordinate Obligations (if rated) shall be withdrawn or suspended (but excluding withdrawals or suspensions if the Rating Agency (as defined in the Liquidity Agreement) stipulates in writing that the rating action is being taken for non-credit

related reasons) or reduced below “Baa3” (or its equivalent), “BBB-“ (or its equivalent) and “BBB-“ (or its equivalent), respectively.

Suspension Events

Each of the following events, among others, shall constitute a Suspension Event (as defined in the Liquidity Agreement) under the Liquidity Agreement. Reference is made to the Liquidity Agreement for a complete listing of all Suspension Events:

(a) (i) Any Governmental Authority with jurisdiction to rule on the validity or enforceability of the Liquidity Agreement, the Act, the Revolving Note, the Term Note, any Series 4 Notes, the Issuing and Paying Agent Agreement or the General Resolution, shall find or rule, in a judicial or administrative proceeding, that any material provision of any of the foregoing relating to (A) the ability or the obligation of the Water Authority to pay, when due, the principal or interest payable on the Series 4 Notes, the Term Note, the Revolving Note, any Advance or any Term Loan or any other Revenues Secured Debt or (B) the Lien (as defined in the Liquidity Agreement) on or pledge of Net Water Revenues securing the Series 4 Notes, the Term Note, any Term Loan or any other Revenues Secured Debt is not valid or not binding on, or enforceable against, the Water Authority; or (ii) the Water Authority (A) makes a claim in a judicial or administrative proceeding that the Water Authority has no further liability or obligation under the Liquidity Agreement, the Act, the Revolving Note, the Term Note, any Series 4 Notes, the Issuing and Paying Agent Agreement or the General Resolution, or any Revenues Secured Debt, as and to the extent the Water Authority has obligations thereunder, to pay, when due, the principal or interest payable on the Series 4 Notes, the Term Note, any Term Loan or any other Revenues Secured Debt, or (B) contests in a judicial or administrative proceeding the validity or enforceability of any provision of the Liquidity Agreement, the Act, the Revolving Note, the Term Note, any Series 4 Notes, the Issuing and Paying Agent Agreement or the General Resolution, or any other Revenues Secured Debt secured by and relating to (1) the ability or the obligation of the Water Authority to pay, when due, the principal or interest payable on the Series 4 Notes, the Term Note, the Revolving Note, any Advance or any Term Loan or any other Revenues Secured Debt or (2) the Lien on or pledge of Net Water Revenues (as defined in the Liquidity Agreement) securing the Series 4 Notes, the Term Note, the Revolving Note, any Advance or any Term Loan or any other Revenues Secured Debt; or

(b) there shall be commenced against the Water Authority any case, proceeding or other action seeking the issuance of a warrant of attachment, execution, distraint or similar process against all or any substantial part of the assets of the Water System or the Water Revenues, which shall not have been vacated, discharged, or stayed or bonded pending appeal.

Notice Event of Default

Each of the following events, among others, shall constitute a Notice Event of Default (as defined in the Liquidity Agreement) under the Liquidity Agreement. Reference is made to the Liquidity Agreement for a complete listing of all Notice Events of Default:

(a) the Water Authority shall fail to pay when due any amount payable under the Liquidity Agreement or under the Fee Letter (other than amounts described in paragraph (a)

under the heading “Termination Events” above) within five days after written demand by the Bank in respect thereof; or

(b) any representation, warranty, certification or statement made by the Water Authority in the Liquidity Agreement or in any Basic Document (as defined in the Liquidity Agreement) or in any certificate, financial statement or other document delivered pursuant to the Liquidity Agreement or any Basic Document shall (in any such case) have been incorrect or untrue in any materially adverse respect when made or deemed to have been made and such representation, warranty, certification or statement shall remain incorrect or continue for 30 days after written notice thereof shall have been given to the Water Authority by the Bank; or

(c) the Water Authority shall default in the due performance or observance of certain terms, covenants or agreements contained in the Liquidity Agreement; or

(d) the Water Authority shall default in the due performance or observance of any term, covenant or agreement contained herein (other than those covered by paragraph (a) or (b) under the heading “Termination Events” above and paragraph (a) or (c) under this heading “Notice Event of Default” and such default, if capable of being remedied, shall remain unremedied for thirty (30) days after written notice thereof shall have been given to the Water Authority by the Bank; provided, however, such breach shall not constitute an Event of Default (as defined in the Liquidity Agreement) after such thirty (30) day period for such period of time as the Water Authority is diligently pursuing a cure or correction of such breach, but in no event for a period of time of more than sixty (60) days after such written notice; or

(e) an “Event of Default” as defined in the Issuing and Paying Agent Agreement or any “event of default” under the General Resolution shall occur and be continuing or the Water Authority shall default in the due performance or observance of any material term, covenant or agreement contained in any other Basic Document and the same shall not have been cured within any applicable cure period; or

(f) the Water Authority shall fail to pay when due and payable (whether by scheduled maturity, required prepayment or acceleration) any other Debt of the Water Authority having an aggregate principal amount or notional amount in excess of \$15,000,000 and such failure shall continue beyond any applicable period of grace specified in any underlying indenture, contract or instrument providing for the creation thereof; or

(g) (i) any of Moody’s, S&P or Fitch shall withdraw or suspend the long-term unenhanced rating on the Bonds or Certificates or (ii) any two of Moody’s, S&P or Fitch shall reduce the long-term unenhanced rating on the Bonds or Certificates below “A3” (or its equivalent), “A-” (or its equivalent), or “A-” (or its equivalent), respectively; *provided that* any such withdrawal or suspension referred to in clause (i) of this paragraph (g) shall not constitute an Event of Default under this paragraph (g) if (x) such withdrawal or suspension is the result of a determination by the Water Authority to cease maintaining such rating and (y) following such withdrawal or suspension the Water Authority is in compliance with Section 7.1(n)(i)(y) of the Liquidity Agreement; or

(h) any Governmental Authority shall declare a financial emergency with respect to the Water Authority and shall appoint or designate with respect to the Water Authority, an entity such as an organization, board, commission, authority, agency or body to manage the affairs and operations of the Water System; or

(i) the Maximum Interest Rate (as defined in the Liquidity Agreement) shall be reduced to a rate below 12% per annum; or

(j) a ruling, assessment, notice of deficiency or technical advice by the Internal Revenue Service shall be rendered to the effect that interest on the Series 4 Notes is included in the gross income of the holders thereof and either (i) the Water Authority, after it has been notified by the Internal Revenue Service, shall not challenge such ruling, assessment, notice or advice in a court of law during the period within which such challenge is permitted or (ii) the Water Authority shall challenge such ruling, assessment, notice or advice and a court of law shall make a determination, not subject to appeal or review by another court of law, that such ruling, assessment, notice or advice is correctly rendered; or

(k) the occurrence of any “default” resulting from a failure by the Water Authority to perform any of its obligations under any agreement or instrument providing credit enhancement or liquidity support with respect to any Prior Obligations or Subordinate Obligations, or pursuant to which the related holders purchased and continues to hold the same, which default results in an acceleration of such Prior Obligations or Subordinate Obligations, as applicable, or the obligations of the Water Authority under such agreement or instrument; or

(l) any material provision of the Liquidity Agreement, the Revolving Note, the Term Note, any Series 4 Note, the Issuing Agreement or the General Resolution, other than a provision described in paragraph (e) under the heading “Termination Events”, shall at any time and for any reason cease to be valid and binding on the Water Authority as a result of a ruling, finding, decree, order, legislative act or similar action by a Governmental Authority having jurisdiction over the Water Authority with respect to such matters or shall be declared in a final nonappealable judgment by any court having jurisdiction over the Water Authority to be null and void, invalid, or unenforceable, or the validity or enforceability thereof shall be publicly contested by the Water Authority.

Remedies

The following are remedies available to the Bank under the Liquidity Agreement upon the occurrence of certain events of default thereunder:

(a) Immediate Termination. Upon the occurrence of any Termination Event, (i) the Commitment and the obligation of the Bank to make Advances under the Liquidity Agreement shall immediately and automatically terminate, without notice from the Bank, and (ii) all amounts due under the Liquidity Agreement and under the Revolving Note and the Term Note shall immediately become due and payable; provided that (y) the Event of Default described in paragraph (a) under the heading “Termination Events” above as it pertains to the failure to pay principal on any Series 4 Notes will not constitute a “Termination Event” under the Liquidity Agreement if the principal due on the maturing Series 4 Notes is not available due to

the inability of the Dealers to sell or place Series 4 Notes in a principal amount sufficient to pay the maturing Series 4 Notes and (z) the Event of Default described in paragraph (b) under the heading “Termination Events” above will not constitute a “Termination Event” under the Liquidity Agreement if the failure to pay the principal of, or interest on, a Revolving Note, Term Note, Advance or Term Loan is due solely to an acceleration thereof by the Bank for any reason other than the reason described in paragraph (b) under the heading “Termination Events” above.

(b) Suspension Events. (i) Upon the occurrence of an Event of Default under the heading “Suspension Events” above, the obligation of the Bank to make Advances under the Liquidity Agreement shall be immediately and automatically suspended from the time of the occurrence of such Event of Default, and in the event any provision of the Liquidity Agreement, the Act, the Revolving Note, the Term Note, any Series 4 Note, the Issuing and Paying Agent Agreement or the General Resolution relating to (A) the ability or obligation of the Water Authority to make payments of principal of or interest on the Series 4 Notes, the Term Note, the Revolving Note, any Advance, any Term Loan or any other Revenues Secured Debt or (B) the Lien on or pledge of the Net Water Revenues of the Water Authority securing the Series 4 Notes, the Term Note, any Term Loan or any other Revenues Secured Debt is declared to be null and void or not fully enforceable, or (ii) the Water Authority (A) makes a claim in a judicial or administrative proceeding that the Water Authority has no further liability or obligation under the Liquidity Agreement, the Act, the Revolving Note, the Term Note, any Series 4 Notes, the Issuing and Paying Agent Agreement or the General Resolution, or any Revenues Secured Debt, as and to the extent the Water Authority has obligations thereunder, to pay, when due, the principal or interest payable on the Series 4 Notes, the Term Note, any Term Loan or any other Revenues Secured Debt, or (B) contests in a judicial or administrative proceeding the validity or enforceability of any provision of the Liquidity Agreement, the Act, the Revolving Note, the Term Note, any Series 4 Notes, the Issuing and Paying Agent Agreement or the General Resolution, or any other Revenues Secured Debt secured by and relating to (1) the ability or the obligation of the Water Authority to pay, when due, the principal or interest payable on the Series 4 Notes, the Term Note, the Revolving Note, any Advance or any Term Loan or any other Revenues Secured Debt or (2) the Lien on or pledge of other Revenues securing the Series 4 Notes, the Term Note, the Revolving Note, any Advance or any Term Loan or any other Revenues Secured Debt, then the obligations of the Bank under the Liquidity Agreement will terminate in accordance with paragraph (a) under this heading “Remedies”; provided, however, that if such provisions are upheld in their entirety, then the Bank’s obligations under the Liquidity Agreement shall be automatically reinstated and the terms of the Liquidity Agreement will continue in full force and effect (unless the Liquidity Agreement shall have otherwise expired or been terminated in accordance with its terms) as if there had been no such suspension. If the Event of Default which gave rise to the suspension of the obligations of the Bank under the Liquidity Agreement has not been cured or does not cease to exist prior to the Commitment Expiration Date (as defined in the Liquidity Agreement), the obligations of the Bank under the Liquidity Agreement shall be terminated.

Upon the occurrence of an Event of Default under paragraph (b) under the heading “Suspension Events” above, the obligation of the Bank to make Advances under the Liquidity Agreement shall be immediately and automatically suspended, without notice, until the proceeding referred to therein is terminated, discharged or dismissed, as applicable, prior to the court entering an order granting the relief sought in such proceeding. In the event such

proceeding is terminated, discharged or dismissed, as applicable, the obligation of the Bank to make Advances under the Liquidity Agreement shall be reinstated and the terms of the Liquidity Agreement will continue in full force and effect (unless the obligation of the Bank to make Advances under the Liquidity Agreement shall have otherwise expired or terminated in accordance with the terms of the Liquidity Agreement or there has occurred a Termination Event) as if there had been no such suspension.

(c) All Events of Default. In the event any Event of Default, including, without limitation, any Termination Event, has occurred and is continuing, the Bank (i) may by written notice to the Water Authority declare all amounts due under the Liquidity Agreement or under any Revolving Note or the Term Note to be immediately due and payable, whereupon the same shall immediately become due and payable, (ii) may by written notice to the Water Authority and the Issuing and Paying Agent (a “No-Issuance Notice”) in substantially the form attached to the Liquidity Agreement declare the Commitment to be reduced to the principal amount of Series 4 Notes then outstanding and to be permanently reduced further on the maturity date of each such Series 4 Note by an amount equal to the principal amount of such Series 4 Note with the Commitment to be terminated upon the last maturity date applicable to all such Series 4 Notes, (iii) may petition a court of competent jurisdiction to issue a mandamus order to the Water Authority to compel specific performance of the covenants of the Water Authority contained in the Issuing and Paying Agent Agreement, in the Liquidity Agreement or in any other Basic Document and (iv) may pursue any other rights or remedies under the Liquidity Agreement, the Issuing and Paying Agent Agreement, any other Basic Document, applicable law or otherwise. Except as expressly provided under this subheading “Remedies,” procurement, demand, protest and all other notices of every kind are hereby expressly waived. Following receipt of a No-Issuance Notice, the Water Authority shall not issue any additional Series 4 Notes.

(d) Timing of No-Issuance Notice. A No-Issuance Notice that is received by the Issuing and Paying Agent at or before 12:00 p.m. (New York City time) shall be effective when received. A No-Issuance Notice that is received by the Issuing and Paying Agent after 12:00 p.m. (New York City time) shall not be effective until the opening of business on the next succeeding Business Day.

(e) Copies of Notices. Concurrently with the occurrence of a Termination Event pursuant to paragraph (a) under this heading “Remedies” or a No-Issuance Notice pursuant to paragraph (c) under this heading “Remedies,” the Water Authority shall give notice to the Issuing and Paying Agent and the Dealer.

In addition, concurrently with giving such notice to the Water Authority and the Issuing and Paying Agent, the Bank shall provide a copy thereof to the Dealer at their respective addresses referred to in the Liquidity Agreement; provided, however, that the Bank shall not incur any liability as a result of its failure to provide a copy of such a notice in accordance with this sentence.

TAX EXEMPTION

The following is a summary of certain of the United States federal income tax consequences of the ownership of the Series 4 Notes as of the date hereof. Each prospective investor should consult with its own tax advisor regarding the application of United States federal income tax laws, as well as any state, local, foreign or other tax laws, to its particular situation.

On June 29, 2011, Orrick, Herrington & Sutcliffe LLP, San Francisco, California, Bond Counsel to the Water Authority, delivered its opinion that, based on an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 4 Notes, when issued in accordance with the Issuing and Paying Agent Agreement and the Tax Certificate of the Water Authority (the "Tax Certificate"), is excluded from gross income for federal income tax purposes and is exempt from the State of California personal income taxes. Bond Counsel's opinion also stated that interest on the Series 4 Notes is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observed that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. The form of such opinion is attached hereto as Appendix B.

Notice 94-84, 1994-2 C.B. 559, states that the Internal Revenue Service (the "IRS") is studying whether the amount of the payment at maturity on short-term debt obligations (i.e., debt obligations with a stated fixed rate of interest which mature not more than one year from the date of issue) that is excluded from gross income for federal income tax purposes is (i) the stated interest payable at maturity or (ii) the difference between the issue price of the short-term debt obligations and the aggregate amount to be paid at maturity of the short-term debt obligations (the "original issue discount"). For this purpose, the issue price of the short-term debt obligations is the first price at which a substantial amount of the short-term debt obligations is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). Until the IRS provides further guidance with respect to tax-exempt short-term debt obligations, taxpayers may treat either the stated interest payable at maturity or the original issue discount as interest that is excluded from gross income for federal income tax purposes. However, taxpayers must treat the amount to be paid at maturity on all tax-exempt short-term debt obligations in a consistent manner. Prospective purchasers of the Series 4 Notes should consult their own tax advisors with respect to the tax consequences of ownership of Series 4 Notes if the owner elects original issue discount treatment.

The Internal Revenue Code of 1986, as amended (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 Series 4 Notes. The Water Authority has made certain representations and has covenanted to comply with certain restrictions designed to assure that the interest on the Series 4 Notes will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in the interest on the Series 4 Notes being included in federal gross income, possibly from the date of first issuance of the Series 4 Notes. The opinion of Bond Counsel assumed the accuracy of these

representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring) or any other matters coming to Bond Counsel's attention after June 29, 2011 (the date of delivery of its final opinion with respect to the Series 4 Notes) may adversely affect the value of, or the tax status of interest on, such Series 4 Notes. Accordingly, the opinion of Bond Counsel was not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel rendered an opinion on June 29, 2011 that interest on the Series 4 Notes is excluded from gross income for tax purposes and is exempt from the State of California personal income taxes, the ownership of disposition of, or the accrual or receipt of interest on, the Series 4 Notes may otherwise affect the owner's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the owner's particular tax status and the owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such consequences.

Future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Series 4 Notes to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislative proposals, or clarification of the Code or court decisions may also affect the market price for, or marketability of, the Series 4 Notes. Prospective purchasers of the Series 4 Notes should consult their own tax advisers regarding any pending or proposed federal or state tax legislation, regulations and litigation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel delivered on June 29, 2011 was based on current legal authority, covered certain matters not directly addressed by such authorities, and represented Bond Counsel's judgment as to the proper treatment of interest on the Series 4 Notes for federal income tax purposes. It is not binding on the Internal Revenue Service (the "IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Water Authority, or about the effect of future changes in the Code, the applicable regulations the interpretation thereof or the enforcement thereof by the IRS. The Water Authority has covenanted, however, to comply with the requirements of the Code.

Unless separately engaged, Bond Counsel is not obligated to defend the Water Authority or the owners of the Series 4 Notes regarding the tax-exempt status of interest on the Series 4 Notes in the event of an audit examination by the IRS. Under current procedures, parties other than the Water Authority, and its appointed counsel, including the owners of the Series 4 Notes, 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 Water Authority legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Series 4 Notes for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Series 4 Notes, and may cause the Water Authority or the owners of the Series 4 Notes to incur significant expense.

Circular 230. Under 31 C.F.R. part 10, the regulations governing practice before the IRS (Circular 230), potential investors are informed that:

- Any advice contained herein, including any opinions of counsel referred to herein, is not intended or written to be used, and cannot be used by any taxpayer, for the purpose of avoiding penalties that may be imposed on the taxpayer;
- Any such advice is written to support the promotion or marketing of the Taxable Notes and the transactions described herein (or in such opinion or other advice); and
- Each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

RATINGS

The Series 4 Notes have been rated "F1+" by Fitch, Inc. ("Fitch"), One State Street Plaza, New York, New York, "P-1" by Moody's Investors Service, Inc. ("Moody's"), 99 Church Street, New York, New York, and "A-1+" by Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business, 25 Broadway, New York, New York ("Standard & Poor's"). The ratings assigned by Fitch, Moody's and Standard & Poor's express only the views of the rating agencies. The explanation of the significance of the ratings may be obtained from Fitch, Moody's and Standard & Poor's, respectively. There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Series 4 Notes.

OTHER MATTERS

The Dealers have provided the following sentence for inclusion in this Offering Memorandum. The Dealers have reviewed the information in this Offering Memorandum in accordance with, and as part of, their responsibility to investors under the federal securities law as applied to the facts and circumstances of this transaction, but the Dealers do not guarantee the accuracy or completeness of such information.

The information and expressions of opinion in this Offering Memorandum are subject to change without notice and neither the delivery of this Offering Memorandum nor any sale hereunder shall, under any circumstances, create any implication that there has been no change in such information or expressions of opinion since the date hereof.

The financial statements of the Water Authority for the fiscal year ended June 30, 2010 and the form of the opinion to be delivered by Bond Counsel are attached hereto as Appendices. The Water Authority will make available on request a copy of the Liquidity Agreement and copies of the Water Authority's most recent Continuing Disclosure Annual Report and Official Statement. For additional information please contact the following:

Eric Sandler
Director of Finance/Treasurer
San Diego County Water Authority
4677 Overland Avenue
San Diego, CA 92123
(858) 522-6671

*Additional information may be obtained from the Water Authority's website at
[http: www.sdcwa.org/financials-investor-relations](http://www.sdcwa.org/financials-investor-relations)*

ATTACHMENTS

Appendix A – Water Authority Financial Statements

Appendix B – Form of Opinion of Bond Counsel

Appendix C – San Diego County Water Authority Annual Statement of Investment Policy

Appendix D – Information Regarding DTC and the Book-Entry Only System

Appendix A

Water Authority Financial Statements



- Brandon W. Burrows, CPA
- Donald L. Parker, CPA
- Michael K. Chu, CPA
- David E. Hale, CPA, CFP
- A Professional Corporation*
- Donald G. Slater, CPA
- Richard K. Kikuchi, CPA
- Susan F. Matz, CPA
- Shelly K. Jackley, CPA

INDEPENDENT AUDITORS' REPORT

Board of Directors
San Diego County Water Authority
San Diego, California

We have audited the statements of net assets of the San Diego County Water Authority (the "Water Authority"), San Diego, California, as of and for the years ended June 30, 2010 and 2009, and the related statements of revenues, expenses and changes in net assets, and statements of cash flows for the years then ended. These financial statements are the responsibility of the Water Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Water Authority, as of June 30, 2010 and 2009, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2010, on our consideration of the Water Authority's internal control over financial reporting and 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.

The accompanying management's discussion and analysis 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.



Board of Directors
San Diego County Water Authority
San Diego, California

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The introductory section, supplemental information and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Water Authority. The supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables listed in the table of contents have not been subjected to the auditing procedures applied to the audit of the basic financial statements and, accordingly, we do not express an opinion on them.

Lance, Soll & Luythard, LLP

October 18, 2010

Management's Discussion & Analysis

This section of the Comprehensive Annual Financial Report (CAFR) presents a discussion and analysis of the financial performance of the San Diego County Water Authority (Water Authority) during the fiscal year ended June 30, 2010. Please read it in conjunction with the Letter of Transmittal located at the beginning of this report, and the Water Authority's Basic Financial Statements, which follow this section. All amounts, unless otherwise indicated, are expressed in millions of dollars.

Overview of the Financial Statements

The Basic Financial Statements are designed to provide readers with a broad overview of the finances of the Water Authority in a manner similar to a private-sector business. The components to the basic financial statements include financial statements and notes to the financial statements.

The Statements of Net Assets present information on all of the Water Authority's assets and liabilities with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Water Authority is improving or deteriorating.

The Statements of Revenues, Expenses, and Changes in Net Assets present information showing how the Water Authority's net assets changed during the fiscal year. All changes in net assets are reported on the accrual basis of accounting, meaning all revenues are realized when earned and expenses are recognized when incurred.

The Statements of Cash Flows report cash receipts, cash payments, and net changes in cash resulting from operating activities, non-capital financing activities, capital and related financing activities, and investing activities for the fiscal year.

The Notes to the Financial Statements (Notes) provide additional information that is essential for a full understanding of the data provided in the financial statements. The Notes are located immediately following the financial statements.

Other Information

The financial statements include the accounts of the San Diego County Water Authority Financing Corporation, a separate legal entity established in December 1997. The accounts of this entity are blended into the Water Authority's financial statements in accordance with Governmental Accounting Standards Board (GASB) Statement Number 14. See Note 1(a) for further information regarding this entity.

The financial statements include the accounts of the San Diego County Water Authority Financing Agency, a separate legal entity established in December 2009. The accounts of this entity are blended into the Water Authority's financial statements in accordance with GASB Statement Number 14. See Note 1(a) for further information regarding this entity.

This report also contains a Supplemental Section (unaudited), which includes a Budgetary Comparison Schedule, and a Statistical Section (unaudited), which presents detailed information to assist the reader in assessing the economic condition of the Water Authority.

The Water Authority implemented GASB Statement Number 51 for the fiscal year ended June 30, 2010. This statement provides accounting and reporting rules for intangible assets including easements, computer systems software, and participation and capacity rights.

Condensed Financial Information

San Diego County Water Authority Net Assets, in Millions (\$)

	June 30,		
	2010	2009	2008
Assets:			
Capital assets	\$ 2,835.1	\$ 2,605.2	\$ 2,315.4
Other assets	1,073.8	690.0	930.7
Total assets	3,908.9	3,295.2	3,246.1
Liabilities:			
Long-term liabilities	2,102.1	1,535.1	1,555.6
Other liabilities	551.2	552.8	559.5
Total liabilities	2,653.3	2,087.9	2,115.1
Net assets:			
Invested in capital assets, net of related debt	954.0	964.2	873.1
Restricted	116.1	80.4	98.1
Unrestricted	185.5	162.7	159.8
Total net assets	\$ 1,255.6	\$ 1,207.3 ⁽¹⁾	\$ 1,131.0 ⁽¹⁾

Notes:

(1) Net Assets at June 30, 2008 were restated by \$6,388,823 to reflect the cancellation of the Groundwater Storage and Recovery Project which had been capitalized as construction in progress in prior years; and also were restated by \$79,846,618 to reflect the capitalization of the Coachella Valley Canal Lining Project. Net Assets at June 30, 2009 were restated by \$827,976 to reflect the capitalization of delay damages related to the Olivenhain-Hodges Pumped Storage Facility.

Capital Assets

Fiscal Year 2010 Compared to Fiscal Year 2009

Capital assets include land, construction in progress, work in progress, plant and equipment, and intangible assets (net of accumulated depreciation and amortization). At June 30, 2010, capital assets total \$2.8 billion, or 72.5 percent of total assets. Capital assets increased \$229.9 million, or 8.8 percent compared to the prior fiscal year primarily due to the increase in intangible assets related to participation rights and the increase in plant and equipment related to pumping plants and facilities, and partially offset by depreciation and amortization expense. Capital Improvement Program (CIP) expenditures for the fiscal year ended June 30, 2010 are \$261.5 million, which include capitalized interest of \$51.6 million. CIP activities for the fiscal year ended June 30, 2010 are described in the Capital Assets and Capital Improvement Program section on page 22. More detailed information about the Water Authority's capital assets is presented in Note 6 to the Financial Statements.

Fiscal Year 2009 Compared to Fiscal Year 2008

Capital assets include land, construction in progress, work in progress, plant and equipment net of depreciation, and intangible assets net of amortization. At June 30, 2009, capital assets total \$2.6 billion, or 79.1 percent of total assets. This represents an increase of \$289.8 million, or 12.5 percent compared to the prior fiscal year primarily due to continued expenditures on the CIP and the addition of \$26.7 million in intangible assets related to participation rights, partially offset by depreciation and amortization expense. CIP expenditures for the fiscal year ended June 30, 2009 are \$292.3 million, which include capitalized interest of \$40.6 million.

Other Assets

Fiscal Year 2010 Compared to Fiscal Year 2009

Other assets include unrestricted and restricted cash and investments; water, interest, taxes, other, retention, and long-term loan receivables; inventories, prepaid water, deferred charges, advances to other agencies, and unamortized bond issuance costs. Other assets total \$1.1 billion at June 30, 2010, an increase of \$383.8 million, or 55.6 percent from the prior fiscal year. Restricted cash and investments increased \$364.8 million primarily due to the issuance of the Water Revenue Bonds, Series 2010 A&B, which also resulted in an increase in unamortized bond issuance costs of \$5.0 million. Other receivables increased \$3.3 million, primarily due to the federal subsidy from the U.S. Treasury for the Taxable Build America Bond Series 2010B debt service payment, which provides for a federal subsidy in an amount equal to 35 percent of the total interest payable. Advances to other agencies decreased \$19.4 million as expenditures were incurred to fund the All-American Canal Lining project.

Fiscal Year 2009 Compared to Fiscal Year 2008

Other assets include unrestricted and restricted cash and investments; water, interest, taxes, other, retention, and long-term loan receivables; inventories, prepaid water, advances to other agencies and unamortized bond issuance costs. Other assets total \$690.0 million at June 30, 2009, a decrease of \$240.7 million, or 25.9 percent from the prior fiscal year. The unspent bond proceeds balance accounts for the majority of the decrease in restricted cash and investments or \$234.0 million compared to the prior fiscal year. The Water Authority also had a related decrease in interest receivable of \$0.5 million due to the decreased cash and investment balances. Advances to other agencies decreased \$18.1 million as expenditures were incurred to fund the All-American Canal Lining project, which were partially offset by additional advances made to Imperial Irrigation District (IID) and are to be repaid when the project-related retention is released from the State of California's Department of Water Resources. There is a \$13.4 million increase in inventories primarily due to increasing water in storage for dry years and a related increase in water receivables of \$3.7 million.

Long-term Liabilities

Fiscal Year 2010 Compared to Fiscal Year 2009

Long-term liabilities consist of bonds used to fund the Water Authority's CIP, contributions payable, compensated absences, Other Post-Employment Benefits (OPEB) liability, arbitrage rebate, unamortized bond discounts/premiums, and deferred loss on refunding. At June 30, 2010, total long-term liabilities are \$2.1 billion, or 79.2 percent of total liabilities. Long-term liabilities increased \$567.0 million primarily due to the issuance of \$624.6 million of new debt in February 2010, partially offset by maturities and the defeasance of \$51.0 million on the outstanding 1998A certificates in March 2010. More detailed information about the Water Authority's long-term liabilities is presented in Note 9 to the Financial Statements.

Fiscal Year 2009 Compared to Fiscal Year 2008

Long-term liabilities consist of bonds used to fund the Water Authority's CIP, contributions payable, compensated absences, OPEB liability, arbitrage rebate, unamortized bond discounts/premiums, and a deferred loss on refunding. At June 30, 2009, total long-term liabilities were \$1.5 billion, or 73.5 percent of total liabilities. Total long-term liabilities were \$20.5 million lower than the prior fiscal year due to principal maturities on outstanding certificates of participation.

Other Liabilities

Fiscal Year 2010 Compared to Fiscal Year 2009

Included in other liabilities are accounts and interest payable, construction deposits, and other short-term liabilities. Other liabilities are \$551.2 million at June 30, 2010, or 20.8 percent of total liabilities. Other liabilities decreased \$1.6 million primarily due to the decrease in construction deposits of \$2.1 million as a result of reduced housing development.

Fiscal Year 2009 Compared to Fiscal Year 2008

Included in other liabilities are accounts and interest payable, construction deposits, and other short-term liabilities. Other liabilities were \$552.8 million at June 30, 2009, or 26.5 percent of total liabilities. This is a decrease of \$6.7 million compared to the prior fiscal year primarily due to the reduction in accounts payable and other liabilities of \$9.3 million due to the timing of significant CIP expenses.

Net Assets

Fiscal Year 2010 Compared to Fiscal Year 2009

Net assets total \$1.26 billion at June 30, 2010, an increase of \$48.3 million compared to the prior fiscal year. Net assets consist of investments in capital assets, net of related debt, restricted, and unrestricted net assets. Investment in capital assets, net of related debt is capital assets (net of accumulated depreciation and amortization) less any outstanding debt used to acquire those assets and amounted to \$954.0 million, or 76.0 percent of total net assets in fiscal year 2010. The decrease of \$10.2 million from the prior fiscal year is due to more capital related debt outstanding from the issuance of new bonds from the prior fiscal year. Restricted nets assets are \$116.1 million, or 9.2 percent of total net assets, and are those assets that are externally restricted by a creditor such as through debt covenants or restricted by law or enabling legislation. Restricted net assets increased \$35.7 million primarily due to an increase in the cash and investments balance for construction funds, in addition to increased accrued interest on unspent debt proceeds restricted for construction projects. Unrestricted net assets include the balances not otherwise classified in the other categories. Unrestricted net assets are \$185.5 million, or 14.8 percent of total net assets. Unrestricted net assets increased \$22.8 million from the prior fiscal year primarily due to an increase in water sales of \$27.9 million.

Fiscal Year 2009 Compared to Fiscal Year 2008

Net assets total \$1.21 billion at June 30, 2009, an increase of \$76.3 million compared to the prior fiscal year. Net assets consist of investments in capital assets, net of related debt, restricted, and unrestricted net assets. Net assets invested in capital assets net of related debt is the difference between capital assets (net of accumulated depreciation/amortization) and the liabilities attributable to the acquisition, construction or improvement of those assets. Net assets invested in capital assets net of related debt were \$964.2 million, or 79.9 percent of total net assets. This is an increase of \$91.1 million from the prior fiscal year as restated primarily due to construction in progress. Restricted net assets are \$80.4 million, or 6.7 percent of total net assets and are those assets that are externally restricted by a creditor such as through debt covenants or restricted by law or enabling legislation, which for the Water Authority includes primarily the cash and investment balances in the 2008A Water Revenue Certificates of Participation, the Pay-As-You-Go funds, and the Debt Service Reserve funds. Unrestricted net assets include the balances not otherwise classified in the other categories. Unrestricted net assets are \$162.7 million, or 13.5 percent of total net assets.

San Diego County Water Authority Changes in Net Assets, in Millions (\$)

	June 30,		
	2010	2009	2008
Operating revenues:			
Water sales	\$ 387.9	\$ 360.0	\$ 343.5
Other revenues	5.0	3.6	9.5
Total operating revenues	<u>392.9</u>	<u>363.6</u>	<u>353.0</u>
Nonoperating revenues:			
Property taxes and in-lieu charges	10.0	10.5	10.3
Infrastructure access charges	21.2	19.4	17.5
Investment income	5.2	18.5	22.2
Other income	1.3	5.3	-
Intergovernmental	5.8	-	-
Gain on sale/retirement of capital assets	0.1	-	0.3
Total nonoperating revenues	<u>43.6</u>	<u>53.7</u>	<u>50.3</u>
Total revenues	<u>436.5</u>	<u>417.3</u>	<u>403.3</u>
Operating expenses:			
Cost of sales	291.4	269.8	262.5
Operations and maintenance	15.5	17.5	14.5
Planning	8.6	10.0	8.9
General and administrative	15.3	15.3	13.6
Depreciation and amortization	30.7	30.0	28.5
Total operating expenses	<u>361.5</u>	<u>342.6</u>	<u>328.0</u>
Nonoperating expenses:			
Interest expense	39.0	40.8	52.2
Other expenses	13.3	7.2	7.0
Total nonoperating expenses	<u>52.3</u>	<u>48.0</u>	<u>59.2</u>
Total expenses	<u>413.8</u>	<u>390.6</u>	<u>387.2</u>
Income before capital contributions	<u>22.7</u>	<u>26.7</u>	<u>16.1</u>
Capital contributions:			
Capacity charges	10.3	13.3	23.9
Water standby availability charges	11.2	11.3	11.3
Contributions in aid of capital assets	4.1	25.0	4.0
Total capital contributions	<u>25.6</u>	<u>49.6</u>	<u>39.2</u>
Changes in net assets	48.3	76.3	55.3
Net assets at beginning of year, as restated (Note 10)	<u>1,207.3</u>	<u>1,131.0</u>	<u>1,075.7</u>
Net assets at end of year	<u>\$ 1,255.6</u>	<u>\$ 1,207.3</u> ⁽¹⁾	<u>\$ 1,131.0</u> ⁽¹⁾

Notes:

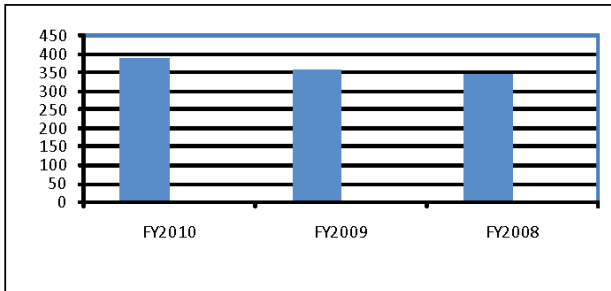
(1) Amounts have been restated.

Revenues by Source

Fiscal Year 2010 Compared to Fiscal Year 2009

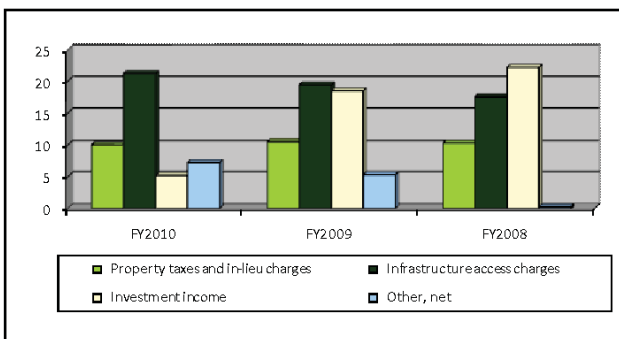
Total revenues and capital contributions for the fiscal year ended June 30, 2010 are \$462.1 million, a decrease of \$4.8 million over the prior fiscal year.

Water Sales, in Millions (\$)



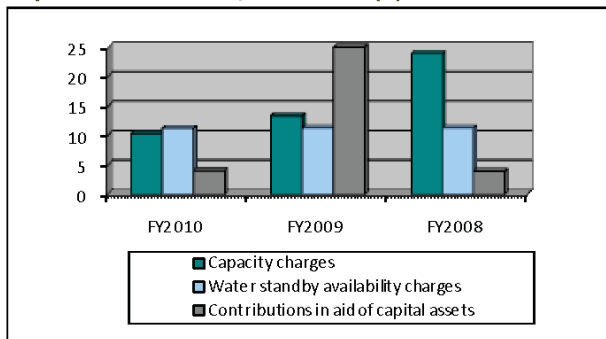
The Water Authority's principal source of revenue is from water sales. Water sales are \$387.9 million, or 83.9 percent of total revenues and capital contributions. Water deliveries decreased by 86,242 acre-feet, or 14.9 percent primarily due to mandatory use restrictions within the service area, cooler weather, and difficult economic conditions. However, water sales revenues increased \$27.9 million, or 7.7 percent when compared to the prior fiscal year due to increased rates and charges.

Nonoperating Revenues, in Millions (\$)



Nonoperating revenues are comprised of property taxes and in-lieu charges, infrastructure access charges (IAC), investment income, intergovernmental, gain on sale/retirement of capital assets, and other income. Nonoperating revenues totaled \$43.6 million, or 9.4 percent of total revenues and capital contributions for the fiscal year ended June 30, 2010. Nonoperating revenues decreased \$10.1 million, or 18.8 percent when compared to the prior fiscal year primarily due to a decrease in investment income of \$13.3 million.

Capital Contributions, in Millions (\$)



Capital contributions consist of capacity charges, water standby availability charges, and contributions in aid of capital assets. Capital contributions totaled \$25.6 million, or 5.5 percent of total revenues and capital contributions. Total capital contributions decreased \$24.0 million when compared to the prior fiscal year. Capacity charges decreased \$3.0 million, or 22.6 percent due to the continued slow down of new construction. Water standby availability charges are fairly consistent at \$11.2 million based on a fixed amount charged on

each parcel of land within the boundaries of the Water Authority in order to recover some of the capital costs associated with maintaining the system. Contributions in aid of capital assets decreased \$20.9 million from the prior fiscal year due to grant revenue from the State of California's Department of Water Resources that was earned in fiscal year 2009.

Fiscal Year 2009 Compared to Fiscal Year 2008

Total revenues and capital contributions for the fiscal year ended June 30, 2009 were \$466.9 million, an increase of \$24.4 million over the prior fiscal year.

Operating revenues or water sales were \$360.0 million, or 77.1 percent of total revenues and capital contributions. Water deliveries decreased by 55,333 acre-feet primarily due to the impact of the Interim Agricultural Water Program cutback and 20-Gallon Challenge. However, water sales revenues increased \$16.5 million, or 4.8 percent when compared to the prior fiscal year due to increased rates and the mix of treated versus untreated water sold. Other revenue is \$3.6 million, a decrease of \$5.9 million, and includes miscellaneous, grants, and hydroelectric power revenues.

Nonoperating revenues are comprised of property taxes and in-lieu charges, IAC, investment income, intergovernmental, gain on sale/retirement of capital assets, and other income. Nonoperating revenues totaled \$53.7 million, or 11.5 percent of total revenues and capital contributions for the fiscal year ended June 30, 2009. This was an increase of \$3.4 million, or 6.8 percent when compared to the prior fiscal year. Investment income was \$18.5 million, a \$3.7 million decrease due primarily to an unfavorable interest rate environment. Property taxes and in-lieu charges were \$10.5 million, an increase of \$0.2 million. Revenue from IAC was \$19.4 million, an increase of \$1.9 million due to a planned, mid-year rate increase from \$1.70 to \$1.90 per equivalent meter per month. Other, net was \$5.3 million, an increase of \$5.0 million, and includes miscellaneous reimbursements, intergovernmental, and proceeds from sale of assets.

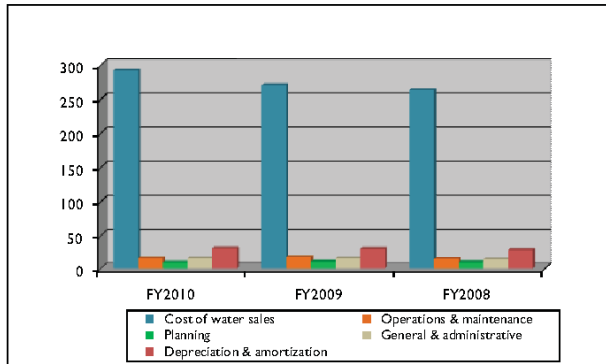
Capital contributions consist of capacity charges, water standby availability charges, and contributions in aid of capital assets. Capital contributions totaled \$49.6 million, or 10.6 percent of total revenues and capital contributions. This was an increase of \$10.4 million compared to the prior fiscal year. System capacity charges apply to all new or larger retail water meters installed and are designed to recover a proportionate share of the capital costs associated with providing services to new connections in the Water Authority's service area. Capacity charges were \$13.3 million, a decrease of \$10.6 million when compared to the prior fiscal year. This 44.4 percent decrease was due to the continued slow down for new housing in the county. At \$11.3 million, water standby availability charges were fairly consistent with the prior fiscal year and these revenues are intended to recover some of the capital costs associated with maintaining the system. Contributions in aid of capital assets were \$25.0 million and the substantial increase of \$21.0 million from the previous fiscal year was due to a grant from the State of California's Department of Water Resources for Vidler Water Company and Semitropic Water Storage related to the Groundwater Conjunctive Use Program.

Expenses by Function

Fiscal Year 2010 Compared to Fiscal Year 2009

Total expenses for the fiscal year ended June 30, 2010 are \$413.8 million, an increase of \$23.2 million, or 5.9 percent, over the prior fiscal year.

Operating Expenses, in Millions (\$)



Operating expenses include the cost of water sales, operating departmental/programmatic expenses, and depreciation and amortization expenses. Operating expenses are \$361.5 million, or 87.4 percent of total expenses. Operating expenses increased \$18.9 million, or 5.5 percent when compared to the prior fiscal year primarily due to increased costs of water purchases from the Water Authority's two main suppliers, Metropolitan Water District and IID. The operating departmental/programmatic expenses include operations and maintenance, planning,

and general and administrative expenses and are \$39.4 million, which represent 9.5 percent of total expenses. This is a decrease of \$3.4 million from the prior fiscal year primarily due to programmatic budget reductions in the Water Resources Department and Water Conservation Program. More detailed information about expenses by department/program is presented in the Budgetary Comparison Schedule located in the Supplemental Section. Depreciation and amortization expenses are \$30.7 million, which represent 7.4 percent of total expenses. As the Water Authority continues to construct capital assets, depreciation expense increases as these new assets are subsequently depreciated.

Nonoperating expenses are \$52.3 million, or 12.6 percent of total expenses and consist of interest and other expenses. Interest expense is \$39.0 million, net of \$51.6 million of capitalized interest and represents 9.4 percent of total expenses. Other expenses increased \$6.1 million due to a payment in settlement to IID.

Fiscal Year 2009 Compared to Fiscal Year 2008

Total expenses for the fiscal year ended June 30, 2009 were \$390.6 million, an increase of \$3.4 million, or 0.9 percent over the prior fiscal year.

Operating expenses include the cost of water sales, depreciation and amortization expenses, and operating departmental/programmatic expenses. Operating expenses were \$342.6 million, or 87.7 percent of total expenses. This was an increase of \$14.6 million, or 4.5 percent when compared to the prior fiscal year. The cost of water sales was \$269.8 million, or 69.1 percent of total expenses. Depreciation and amortization expenses were \$30.0 million, which represent 7.7 percent of total expenses. As the Water Authority continues to construct capital assets, depreciation expense increases as these new assets are subsequently depreciated.

The operating departmental/programmatic expenses include operations and maintenance, planning, and general and administrative expenses. The operating departmental/programmatic expenses were \$42.8 million, which was an increase of \$5.8 million due to the timing of expenditures in the second half of the two-year budget cycle.

Nonoperating expenses were \$48.0 million, or 12.3 percent of total expenses and include interest and other expenses. Interest expense was \$40.8 million, net of \$40.6 million of interest expense incurred during construction (capitalized interest) and represents 10.4 percent of total expenses. The decrease in interest expense of \$11.4 million, or 21.8 percent, from the prior fiscal year was primarily due to increased capitalized interest. Other expenses were \$7.2 million and include conservation reimbursement programs and other miscellaneous expenses.

Capital Assets and Capital Improvement Program

San Diego County Water Authority Capital Assets (Net of Accumulated Depreciation and Amortization), in Millions (\$)

	June 30,		
	2010	2009	2008
Land	\$ 19.1	\$ 13.1	\$ 13.3
Construction in progress	1,199.7	1,302.9	1,051.6
Work in progress	0.6	0.8	0.6
Plant and equipment	1,371.4	1,166.2	1,150.4
Intangible assets	244.3	122.2	99.5
Total	\$ 2,835.1	\$ 2,605.2⁽¹⁾	\$ 2,315.4⁽¹⁾

Notes:

(1) Amounts have been restated.

The Water Authority's capital assets are \$2.8 billion (net of accumulated depreciation and amortization). The total CIP budget as of June 30, 2010 consists of 50 projects at a cost of approximately \$3.8 billion. The CIP is being financed by the proceeds from long-term and short-term debt issuances, water standby availability charge revenues, and capital contributions from capacity charges. The CIP is also financed from operating revenues as needed.

For the fiscal year ended June 30, 2010, the Water Authority maintained a service area of approximately 951,000 acres including 300 miles of pipelines ranging in size from 27 inches to 120 inches in diameter, rights-of-way, roads, mechanical equipment, buildings, and grounds, including nearly 1,400 line structures and 131 metering and control buildings. The preventative maintenance program consists of regularly scheduled inspections and maintenance. The Water Authority has an Aqueduct Protection Program as part of the CIP that ensures the structural integrity of pipeline assets, performs pipeline condition assessments, and extends the service life of the existing pipelines. This program includes internal inspection schedules and corrosion monitoring on the pipelines. Additional information on the Water Authority's capital assets can be found in Note 6 to the Financial Statements.

Highlights of Fiscal Year 2010 Capital Improvement Expenditures

The major capital improvement activities for the current fiscal year include the following:

\$31.6 million for the Emergency Storage Project (ESP) - San Vicente Pipeline and Aqueduct Interconnect. This is a major component of the ESP comprised of an eleven-mile tunnel that will stretch from the San Vicente reservoir northwest to just west of Interstate-15 at Mercy Road.

\$5.3 million for the ESP - San Vicente Pumping Facilities. The pump station and surge control facility's primary function is to move water from the San Vicente Reservoir to the Second Aqueduct during emergencies. Additional benefits include the ability to add and remove water from the San Vicente Reservoir on an annual basis to maximize seasonal storage and provide water to the Helix Water District's Levy Water Treatment Plant. Operation of the pump station will not be integrated into the aqueduct system until the San Vicente Pipeline is completed in late 2010.

\$30.8 million for the Colorado River Canal Linings. This project includes the lining of the All-American Canal, which calls for approximately 23 miles of lined canal to be built next to the existing canal and, when complete, provides 56,200 acre feet of water per year to San Diego County for the next 110 years. Construction for the All-American Canal Lining was administered by IID. The All-American Canal construction was completed in fiscal year 2010.

\$25.0 million for the Lake Hodges projects which include the ESP - Lake Hodges Pump Station Inlet/Outlet, the Olivenhain Pumped Storage, and the ESP - Lake Hodges to Olivenhain Pipeline. These combined projects will allow water to be pumped back and forth between the Lake Hodges and Olivenhain reservoirs which will allow 20,000 acre-feet of water in the Lake Hodges reservoir to be available for emergency use. Also, when the water is transferred downstream from Olivenhain to the Lake Hodges reservoir, it will generate 40 megawatts of electricity sufficient to supply electricity for nearly 26,000 homes.

\$49.7 million for the ESP - San Vicente Dam Raise and Carryover Storage. This project is the raising of the San Vicente dam by 117 feet by using roller compacted concrete to accommodate an additional 152,000 acre-feet of combined emergency and carryover storage. The total capacity of the expanded San Vicente reservoir would be approximately 242,000 acre-feet. The construction for the excavation and foundation preparation is near completion. The construction package for raising the dam was awarded in April 2010 and is expected to be completed in early 2013.

\$20.7 million for the Mission Trails Pipeline Tunnel. This pipeline tunnel project is critical to meet untreated water demands in the central and south county. This project, in conjunction with the Mission Trails Flow Regulatory Structure II Project, will relieve hydraulic constraints along the Second Aqueduct.

\$3.3 million for the East County Regional Treated Water Improvements. This is a joint program of the Water Authority and several member agencies to improve the use of the Helix Water District's Levy Water Treatment Plant. The member agencies include Helix Water District, Padre Dam Municipal Water District, Otay Water District, and Lakeside Water District. This program includes additional flow control facilities, as well as increased participation rights.

Highlights of Fiscal Year 2009 Capital Improvement Expenditures

The major capital improvement activities for the prior fiscal year include the following:

\$68.6 million for the Colorado River Canal Linings. This includes the lining of the All-American Canal with water beginning to flow in June 2008 and March 2009. Construction of the remainder of the project is expected to be completed in spring 2010. The All-American Canal calls for approximately 23 miles of lined canal to be built next to the existing canal and, when complete, will provide 56,200 acre feet of water per year to San Diego County for the next 110 years. Construction for the All-American Canal Lining is being administered by IID.

\$36.1 million for the ESP - San Vicente Pipeline and Aqueduct Interconnect. This pipeline will connect the San Vicente Reservoir to the Second Aqueduct in the vicinity of Mercy Road and Interstate-15. It will transport water in either direction to meet member agency needs and to achieve storage requirements in the San Vicente Reservoir. Through the end of fiscal year 2009 the project is over 80 percent complete.

\$33.6 million for the ESP - San Vicente Pumping Facilities. The pump station and surge control facility's primary function is to move water from the San Vicente Reservoir to the Second Aqueduct during emergencies. Additional benefits include the ability to add and remove water from the San Vicente Reservoir on an annual basis to maximize seasonal storage and provide water to the Helix Water District's Levy Water Treatment Plant.

\$31.6 million for the Relining and Pipe Replacement Program. Nearly five miles of Pipelines 3, 4, and 4A were relined in the southern portion of the system and several urgent/emergency repairs were accomplished.

\$27.8 million for the Lake Hodges projects which include the ESP - Lake Hodges Pump Station Inlet/Outlet, the Olivenhain Pumped Storage, and the ESP - Lake Hodges to Olivenhain Pipeline. These combined projects will allow water to be pumped back and forth between the Lake Hodges and Olivenhain reservoirs which will allow 20,000 acre-feet of water in the Lake Hodges reservoir to be available for emergency use. Also, when the water is transferred downstream from Olivenhain to the Lake Hodges reservoir, it will generate 40 megawatts of electricity sufficient to supply electricity for nearly 26,000 homes.

\$26.7 million for the Groundwater Conjunctive Use Program. Incident to Board guidance to pursue supply and storage opportunities in the region, two agreements for groundwater storage and supply were approved in the Central Valley of California with Vidler Water Company and Semitropic-Rosamond Water Bank. The agreements entitle the Water Authority to storage, withdrawal, and exchange rights within the Semitropic Water Banking and Exchange Program, the Semitropic Water Bank Recovery Unit, and the Antelope Valley Water Bank.

\$22.1 million for the ESP - San Vicente Dam Raise and Carryover Storage. This project is the raising of the San Vicente dam by 117 feet by using roller compacted concrete to accommodate an additional 152,000 acre-feet of combined emergency and carryover storage. The total capacity of the expanded San Vicente reservoir would be approximately 242,000 acre-feet.

\$13.5 million for the Mission Trails Pipeline Tunnel. The project is critical to meet untreated water demands in the central and south county. The project consists of a 96 inch diameter 4,800 foot pipeline tunnel from the north of Elliot Vent Number 1 to south of Elliot Vent Number 4.

Debt Administration

Short-term Debt

As of June 30, 2010 the Water Authority had \$460 million in tax-exempt commercial paper outstanding. More detailed information about the Water Authority's short-term debt is presented in Note 8 to the Financial Statements.

Long-term Debt

San Diego County Water Authority Outstanding Long-Term Debt, in Millions (\$)

	June 30,		
	2010	2009	2008
Revenue Bonds	\$ 624.6	\$ -	\$ -
Certificates of Participation	1,369.2	1,426.5	1,446.3
Total	\$ 1,993.8	\$ 1,426.5	\$ 1,446.3

As of June 30, 2010 the Water Authority had \$2.0 billion in bonds outstanding. More detailed information about the Water Authority's long-term debt is presented in Note 9 to the Financial Statements including information that the Water Authority is in compliance with bond covenants and its debt service coverage ratio requirement.

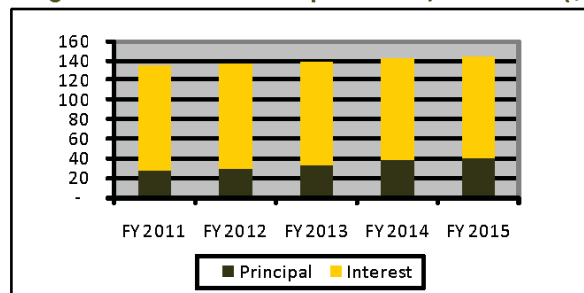
Credit Ratings

In April 2010, the Water Authority's long-term debt credit rating was upgraded to AA+ from Fitch Ratings and upgraded to Aa2 from Moody's Investors Service. Standard & Poor's affirmed the Water Authority's long-term debt underlying credit rating of AA+. These high ratings are enjoyed by only a few water agencies in California.

Future Long-term Debt Service

The table below shows the Water Authority's estimated future long-term debt service requirements through June 30, 2015.

Long-Term Debt Service Requirements, in Millions (\$)



Contacting the Water Authority's Financial Management Division

This financial report is designed to provide the Board of Directors, the Water Authority's member agencies, taxpayers, creditors, and investors with a general overview of the Water Authority's accountability for the financial resources it manages. If you have questions about this report or need additional financial information, contact the Finance Department at the San Diego County Water Authority, 4677 Overland Avenue, San Diego, California 92123.

San Diego County Water Authority
Statements of Net Assets, June 30, 2010 and 2009

	2010	2009
Assets:		
Current assets:		
Cash and investments (Notes 1d and 2)	\$ 96,667,087	\$ 104,094,605
Restricted cash and investments (Notes 1d and 2)	565,858,310	381,242,365
Water receivables	77,450,758	68,436,955
Interest receivable	2,940,382	3,502,437
Taxes receivable	1,824,080	1,829,617
Other receivables	7,105,549	3,814,700
Inventories (Notes 1e and 3)	25,398,574	27,102,945
Prepaid water (Note 4)	4,615,500	5,713,500
Total current assets	781,860,240	595,737,124
Noncurrent assets:		
Cash and investments (Notes 1d and 2)	37,678,064	2,694,225
Restricted cash and investments (Notes 1d and 2)	216,097,708	35,926,935
Deferred charges	159,240	-
Advances to other agencies	-	19,446,844
Retention receivable	-	4,007,308
Long-term loan receivables (Note 5)	20,688,268	20,000,000
Unamortized bond issuance costs (Note 9)	17,282,596	12,263,098
Capital assets (Notes 1f and 6):		
Land	19,065,447	13,128,344
Construction in progress	1,199,690,241	1,302,928,098
Work in progress	641,065	749,017
Plant and equipment, net	1,371,349,004	1,166,190,126
Intangible assets, net	244,339,340	122,196,758
Total noncurrent assets	3,126,990,973	2,699,530,753
Total assets	3,908,851,213	3,295,267,877
Liabilities:		
Current liabilities:		
Accounts payable and other liabilities	71,836,072	78,392,621
Interest payable	19,035,842	12,077,179
Construction deposits	302,657	2,364,089
Short-term liabilities (Note 8)	460,000,000	460,000,000
Current portion of long-term liabilities (Note 9)	31,658,450	10,691,961
Total current liabilities	582,833,021	563,525,850
Noncurrent liabilities:		
Long-term liabilities (Note 9)	2,070,416,397	1,524,401,978
Total noncurrent liabilities	2,070,416,397	1,524,401,978
Total liabilities	2,653,249,418	2,087,927,828
Net assets:		
Invested in capital assets, net of related debt	954,037,294	964,225,706
Restricted for construction projects	115,506,824	79,790,128
Restricted for debt service	597,315	614,622
Unrestricted (Note 1i)	185,460,362	162,709,593
Total net assets	\$ 1,255,601,795	\$ 1,207,340,049

See accompanying notes to the financial statements.

San Diego County Water Authority

Statements of Revenues, Expenses, and Changes in Net Assets for the Fiscal Years Ended June 30, 2010 and 2009

	2010	2009
Operating revenues:		
Water sales	\$ 387,871,218	\$ 359,951,622
Other revenues	4,965,060	3,608,350
Total operating revenues	<u>392,836,278</u>	<u>363,559,972</u>
Operating expenses:		
Cost of sales	291,385,187	269,835,859
Operations and maintenance	15,482,609	17,409,496
Planning	8,642,260	10,004,616
General and administrative	15,270,175	15,309,407
Depreciation and amortization	30,657,250	30,038,388
Total operating expenses	<u>361,437,481</u>	<u>342,597,766</u>
Operating income	<u>31,398,797</u>	<u>20,962,206</u>
Nonoperating revenues (expenses):		
Property taxes and in-lieu charges (Notes 1k and 1l)	9,971,624	10,467,484
Infrastructure access charges (Note 1j)	21,241,060	19,389,790
Investment income	5,217,031	18,507,476
Other income	1,256,746	5,377,897
Intergovernmental	5,791,292	-
Gain on sale/retirement of capital assets	52,598	18,695
Interest expense	(38,982,442)	(40,828,498)
Other expenses	(13,311,285)	(7,202,845)
Total nonoperating revenues (expenses)	<u>(8,763,376)</u>	<u>5,729,999</u>
Income before capital contributions	<u>22,635,421</u>	<u>26,692,205</u>
Capital contributions (Note 1n):		
Capacity charges	10,298,928	13,265,608
Water standby availability charges	11,240,386	11,311,384
Contributions in aid of capital assets	4,087,011	25,027,314
Total capital contributions	<u>25,626,325</u>	<u>49,604,306</u>
Changes in net assets	<u>48,261,746</u>	<u>76,296,511</u>
Net assets at beginning of year, as restated (Note 10)	<u>1,207,340,049</u>	<u>1,131,043,538</u>
Net assets at end of year	<u>\$ 1,255,601,795</u>	<u>\$ 1,207,340,049</u>

See accompanying notes to the financial statements.

San Diego County Water Authority

Statements of Cash Flows, For the Fiscal Years Ended June 30, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Cash received from customers	\$ 380,531,626	\$ 364,328,714
Cash paid to suppliers for purchases of water	(294,570,887)	(293,690,865)
Cash paid to suppliers for goods and services	(7,453,261)	(3,551,420)
Cash paid to employees for services	(42,895,846)	(40,692,090)
Net cash provided by (used for) operating activities	<u>35,611,632</u>	<u>26,394,339</u>
Cash flows from noncapital financing activities:		
Property taxes and in-lieu charges received	9,977,161	10,258,751
Infrastructure access charges received	21,241,060	19,389,790
Intergovernmental	5,791,292	-
Net cash provided by (used for) noncapital financing activities	<u>37,009,513</u>	<u>29,648,541</u>
Cash flows from capital and related financing activities:		
Cash paid for acquisition and construction of capital assets	(189,457,004)	(261,089,069)
Contributions and capital related revenues received from other governments	25,626,325	49,604,306
Cash paid for deferred charges	(159,240)	-
Proceeds of short-term debt issuance	460,000,000	460,000,000
Proceeds of long-term debt issuance	624,630,000	3,140,012
Cost of debt issuance	(5,639,216)	-
Principal paid on short-term debt	(460,000,000)	(460,000,000)
Principal paid on long-term debt	(65,321,650)	(24,650,275)
Interest paid on debt	(75,736,407)	(79,984,725)
Net cash provided by (used for) capital and related financing activities	<u>313,942,808</u>	<u>(312,979,751)</u>
Cash flows from investing activities:		
Interest received on investments	5,779,086	19,016,648
Net cash provided by (used for) investing activities	<u>5,779,086</u>	<u>19,016,648</u>
Net increase (decrease) in cash and cash equivalents	<u>392,343,039</u>	<u>(237,920,223)</u>
Cash and investments at beginning of year	<u>523,958,130</u>	<u>761,878,353</u>
Cash and investments at end of year	<u>\$ 916,301,169</u>	<u>\$ 523,958,130</u>
Reconciliation of cash and investments at the end of the year:		
Current assets:		
Cash and investments	\$ 96,667,087	\$ 104,094,605
Restricted cash and investments	565,858,310	381,242,365
Noncurrent assets:		
Cash and investments	37,678,064	2,694,225
Restricted cash and investments	216,097,708	35,926,935
Cash and investments at the end of the year	<u>\$ 916,301,169</u>	<u>\$ 523,958,130</u>

See accompanying notes to the financial statements.

San Diego County Water Authority

Statement of Cash Flows For the Fiscal Years Ended June 30, 2010 and 2009, (continued)

	2010	2009
Reconciliation of operating income to net cash provided by (used for) operating activities:		
Operating income	\$ 31,398,797	\$ 20,962,206
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:		
Depreciation and amortization	30,657,250	30,038,388
Other expenses	(13,311,285)	(7,202,845)
Other income	1,256,746	5,377,897
(Increase) decrease in water receivables	(9,013,803)	(3,706,195)
(Increase) decrease in other receivables	(3,290,849)	4,474,937
(Increase) decrease in inventories	1,704,371	(13,431,043)
(Increase) decrease in prepaid water	1,098,000	(1,098,000)
Increase (decrease) in long-term loan receivables	(688,268)	-
Increase (decrease) in retention receivable	4,007,308	(2,675,364)
Increase (decrease) in accounts payable and other liabilities	(6,556,549)	(9,325,963)
Increase (decrease) in construction deposits	(2,061,432)	1,836,104
Increase (decrease) in compensated absences	132,346	959,217
Increase (decrease) in OPEB liability	279,000	185,000
Total adjustments	<u>4,212,835</u>	<u>5,432,133</u>
Net cash provided by (used for) operating activities	<u>\$ 35,611,632</u>	<u>\$ 26,394,339</u>
Noncash capital financing and investing activities:		
Amortization of discounts/premiums and deferred loss on refundings	\$ (1,177,913)	\$ (156,565)
Discounts/premiums on debt issued	8,439,125	-
Amortization of cost of issuance	619,718	718,609

See accompanying notes to the financial statements.

1. Nature of Business and Summary of Significant Accounting Policies

(a) Nature of Business

The San Diego County Water Authority (the Water Authority) was organized on June 9, 1944 under the County Water Authority Act (the Act). The Water Authority's primary purpose is providing wholesale water to its member agencies for domestic, municipal, and agricultural uses. The Water Authority consists of 24 member public agencies that are each represented by at least one person on the Water Authority's Board of Directors. The Water Authority is a member of the Metropolitan Water District of Southern California (MWD) and historically, the Water Authority purchased all the water it required from MWD to meet the demands of the member agencies. The Water Authority is in the process of diversifying its supply. Pursuant to the Quantification Settlement Agreement (QSA) and its related contracts, the Water Authority is obtaining conserved water from the Imperial Irrigation District (IID) and will also receive water conserved by lining of the All-American and Coachella Canals. The QSA was signed on October 10, 2003. The Water Authority also adopted a Regional Water Facilities Master Plan in 2004, which calls for further supply diversification.

The MWD Act provides a preferential right for the purchase of water by each of its constituent agencies. This preferential right is calculated using a formula and based upon such formula, the Water Authority has a statutory preferential right to approximately 17.47 percent of MWD's total supply. MWD has represented that it will provide reliable water supplies notwithstanding preferential rights.

The San Diego County Water Authority Financing Corporation (SDCW AFC) was incorporated on December 29, 1997. The SDCW AFC is a California nonprofit public benefit corporation formed to assist the Water Authority as a financing entity. The SDCW AFC is administered by a governing board which consists of five members as follows: the Chair of the Board of Directors of the Water Authority, the Chair of the Administrative and Finance Committee of the Water Authority, the General Manager of the Water Authority, the Director of Finance/Treasurer of the Water Authority, and the General Counsel of the Water Authority. The Water Authority does not issue separate financial statements for the SDCW AFC because its activities are blended with those of the Water Authority for financial reporting purposes.

The San Diego County Water Authority Financing Agency (SDCW AFA) was established on December 17, 2009 to facilitate financing and refinancing of capital improvement projects of the Water Authority and to finance working capital for the Water Authority. The SDCW AFA is a Joint Powers Agreement (JPA) with statutory authority to issue revenue bonds and was formed by agreement between the Water Authority and the California Municipal Finance Authority (CMFA). The CMFA itself is a JPA that was created in 2004 by various local agencies to facilitate tax-exempt financing. The CMFA has entered into many such JPAs. Under the JPA agreement the Water Authority has control over all finance matters.

The SDCW AFA's sole purpose is to be a financing entity for the Water Authority and the SDCW AFA is administered by a governing board which consists of five members as follows: the Chair of the Board of Directors of the Water Authority, the Chair of the Administrative and Finance Committee of the Water Authority, the General Manager of the Water Authority, the Director of Finance/Treasurer of the Water Authority, and the General Counsel of the Water Authority. The Water Authority does not issue separate financial statements for the SDCW AFA because its activities are blended with those of the Water Authority for financial reporting purposes.

1. Nature of Business and Summary of Significant Accounting Policies, (continued)

(b) Basis of Accounting

The Water Authority is accounted for as an enterprise fund (proprietary fund type). A fund is an accounting entity with a self-balancing set of accounts established to record the financial position and results of operations of a specific governmental activity. The activities of enterprise funds closely resemble those of ongoing businesses in which the purpose is to conserve and add to basic resources while meeting operating expenses from current revenues. Enterprise funds account for operations that provide services on a continuous basis and are substantially financed by revenues derived from user charges.

The Water Authority utilizes the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized as they are incurred.

The Water Authority applies all applicable Governmental Accounting Standards Board (GASB) pronouncements in accounting and reporting for proprietary operations, as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the Committee on Accounting Procedure.

(c) Budgets and Budgetary Accounting

The Water Authority Board of Directors adopts two-year budgets for operations, debt service, and capital expenditures. The Board of Directors, by resolution, has established budgetary controls and made a total appropriation for expenditures consistent with the adopted budget. The total appropriation adopted by the Board of Directors establishes the legal expenditure limit for the Water Authority. The Board of Directors, by resolution, has delegated to the General Manager authority to make budget adjustments as necessary within a limit of \$150,000 subject to the total appropriation limit. Budget adjustments in excess of \$150,000 or increases in the total appropriation limit must be approved by the Board of Directors. The Water Authority adhered to the budget policies and budgetary controls adopted by the Board of Directors for the fiscal years ended June 30, 2010 and 2009.

(d) Cash and Investments

The Water Authority's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. For financial statement presentation purposes, cash and cash equivalents are shown as both restricted and unrestricted cash and investments.

Investments are reported at fair value, except for certain investment contracts that are reported at cost because they are not transferable and they have terms that are not affected by changes in market interest rates. The State Treasurer's Investment Pool operates in accordance with appropriate State laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

Changes in fair value that occur during the fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

(e) Inventories

Inventories consist of water, valves, and materials in storage and are valued using the average cost method.

1. Nature of Business and Summary of Significant Accounting Policies, (continued)

(f) Capital Assets

Capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated assets are valued at their estimated fair market value on the date received. The Water Authority capitalizes all assets with a historical cost of at least \$5,000 and a useful life of at least three years. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Depreciation is computed utilizing the straight-line method over the following estimated useful lives:

Dams	100 years
Water transportation pipelines	25 to 100 years
Plants and facilities	25 to 40 years
Automobiles and equipment	3 to 10 years

Intangible Assets

The Water Authority also participates in various storage and water management programs, or builds capital assets that by agreement entitle it to certain participation or capacity rights that are included in capital assets as intangible assets. Some projects also require payments for on-going maintenance which are charged to expense as incurred. Amortization is computed utilizing the straight-line method over the estimated useful life for capacity rights, software, and easements or life of the agreement in the case of participation rights.

Capitalized Interest

The Water Authority capitalizes interest on self-constructed assets during the period of construction. The amount of interest cost capitalized on qualifying assets acquired with proceeds of tax-exempt borrowings that are externally restricted to finance acquisition of specified assets is all interest costs of the borrowings less any interest earned on related interest-bearing investments acquired with such unexpended proceeds from the date of the borrowings until the assets are substantially complete and are ready for their intended use.

(g) Compensated Absences

It is the Water Authority's policy to permit employees to accumulate earned but unused vacation benefits up to a maximum of 50 days (75 days for management). Sick leave hours accrue at the rate of one day per month. Employees may elect to receive cash for accumulated sick leave depending on the prevailing rules at the time of termination or retirement. All accumulated vacation and vested sick leave pay is recorded as an expense and a liability at the time the benefit is earned.

1. Nature of Business and Summary of Significant Accounting Policies, (continued)

(h) Arbitrage Rebate

Arbitrage is the difference between the interest paid on tax-exempt bonds and the interest earned by investing the proceeds at higher yielding taxable securities. Federal income tax laws generally restrict the ability to earn arbitrage and so amounts are accumulated in order to make arbitrage rebate payments to the federal government under the Internal Revenue Code.

(i) Unrestricted Net Assets

The unrestricted net assets of the Water Authority are restricted by state law for sole use by the Water Authority for water operations. They are reported as unrestricted net assets in the accompanying financial statements because this restriction corresponds to the general purpose for which the Water Authority was established. They are unavailable for other government uses and are committed to the ongoing operations of the Water Authority, including amounts necessary to cover contingencies, unanticipated expenditures, revenue shortfalls, and weather and economic fluctuations.

(j) Revenue Policies

The principal source of the Water Authority's revenues is provided by water sales, which include all charges for the sale and availability of water, including water supply rates, customer service, storage charges, and transportation/exchange transactions. Water is delivered to member agencies on demand and revenue is recognized at the time of delivery.

In fiscal year 1999 the Infrastructure Access Charge (IAC) was adopted by the Board of Directors as an additional source of fixed revenue to provide better coverage of the Water Authority's projected fixed expenditures. The IAC is levied on each Water Authority member agency based on the number and size of retail water meters within the agencies and within the Water Authority's service area. The fixed charge is levied against each member agency for the purpose of maintaining a minimum ratio of projected fixed revenue to projected fixed expenditures of 25 percent. The IAC is adjusted each calendar year as part of the regular rate-setting process. Beginning on January 1, 2010, the IAC increased from \$1.90 to \$2.02 per meter equivalent per month.

(k) Property Taxes

The Water Authority is authorized under the Act to levy taxes on all taxable property within its boundaries for the purposes of carrying on its operations and paying its obligations subject to certain limitations in the Act, the Revenue and Taxation Code, and the California Constitution.

Property taxes are levied annually by the Water Authority's Board of Directors as of July 1, using a lien date of March 1, and are payable by property owners in two equal installments, which are due by December 10 and April 10. The taxes levied are billed and collected by the County of San Diego and are remitted to the Water Authority throughout the year.

(l) In-Lieu Charges

Member agencies of the Water Authority may elect to pay in-lieu charges instead of the tax levy. Presently, only the city of San Diego pays the in-lieu charge directly to the Water Authority.

1. Nature of Business and Summary of Significant Accounting Policies, (continued)

(m) Classification of Revenues

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services, and producing and delivering goods in connection with an enterprise fund's principal operations. The principal operating revenues of the Water Authority consist of sales of water. Nonoperating revenues consist of property taxes, in-lieu charges, IAC, investment income, hydroelectric sales, intergovernmental, and other miscellaneous income.

(n) Capital Contributions

Capital contributions include capacity charges, water standby availability charges, and contributions in aid of capital assets that are reflected in the accompanying Statements of Revenues, Expenses, and Changes in Net Assets. Capital contributions consist of contributed capital assets and special charges that are legally restricted for capital expenditures by state law or by the Board action that established those charges.

The Water Authority has two separate revenue sources to fund the Capital Improvement Program (CIP). A Water Standby Availability Charge was put into effect in fiscal year 1990 and is intended to recover some of the capital costs associated with maintaining the system. In fiscal year 1991 a Capacity Charge on all new or larger retail water meters installed within the boundaries of the Water Authority was implemented. This charge, based on meter size, is designed to recover a proportionate share of the capital costs associated with providing services to new connections.

Federal, state, and private grants used for capital purposes are included in Capital Contributions in Aid of Capital Assets. These grants are typically of a reimbursable nature, that is the Water Authority first pays for the project and then the granting agency reimburses the Water Authority for its eligible expenditures. Examples of capital projects where grants are received include regional water use and efficiency improvements, and water storage programs.

(o) Classification of Expenses

Operating expenses for enterprise funds include the cost of sales, operations and maintenance, planning, general and administrative expenses, depreciation on capital assets, and amortization of intangible assets. Expenses not meeting this definition are reported as nonoperating expenses and include interest expense, bond discounts/premiums, deferred loss on refunding, and other miscellaneous expenses.

(p) Estimates

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

(q) Reclassifications

Certain prior year amounts have been reclassified to conform within current year presentation.

2. Cash and Investments

Cash and investments are classified in the accompanying Statements of Net Assets at June 30 as follows:

	<u>2010</u>	<u>2009</u>
Current assets:		
Cash and investments	\$ 96,667,087	\$ 104,094,605
Restricted cash and investments	<u>565,858,310</u>	<u>381,242,365</u>
Total current assets	<u>662,525,397</u>	<u>485,336,970</u>
Noncurrent assets:		
Cash and investments	37,678,064	2,694,225
Restricted cash and investments	<u>216,097,708</u>	<u>35,926,935</u>
Total noncurrent assets	<u>253,775,772</u>	<u>38,621,160</u>
Total cash and investments	<u>\$ 916,301,169</u>	<u>\$ 523,958,130</u>

The carrying value of cash and investments held by the Water Authority consisted of the following:

	<u>2010</u>	<u>2009</u>
Petty cash	\$ 2,500	\$ 2,500
Deposits	363,010	186,437
Investments	<u>915,935,659</u>	<u>523,769,193</u>
Total cash and investments	<u>\$ 916,301,169</u>	<u>\$ 523,958,130</u>

2. **Cash and Investments, (continued)**

(a) **Investments Authorized by the California Government Code and the Water Authority's Investment Policy**

The table below identifies the investment types that are authorized for the Water Authority by the California Government Code and the Water Authority's investment policy. The table also identifies certain provisions of the California Government Code (or the Water Authority's investment policy, if more restrictive) that address interest rate risk and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the Water Authority rather than the general provisions of the California Government Code or the Water Authority's investment policy.

Investment Type Authorized by State Law	Authorized by Investment Policy	Maximum Maturity*	Maximum Percentage of Portfolio (1)	Maximum Investment in One Issuer (1)
Local agency bonds	Yes	5 years	20%	None
U.S. Treasury securities	Yes	5 years	None	None
Federal agency securities	Yes	5 years	85%	None
Bankers' acceptances	Yes	180 days	20%	5%
Commercial paper	Yes	270 days	25%	5%
Certificates of deposit	Yes	12/31/2013	15%	None
Placement service certificates of deposit	Yes	12/31/2013	15% ⁽²⁾	None
Negotiable certificates of deposit	Yes	12/31/2013	15% ⁽²⁾	None
Repurchase agreements	Yes	1 year	20%	None
Reverse repurchase agreements	Yes	92 days	20% of base value	None
Medium-term notes	Yes	5 years	30%	5%
Mutual funds	No	n/a	20%	10%
Money market funds	Yes	n/a	15%	10%
Mortgage pass-through securities	No	5 years	20%	None
County pooled investment funds	No	n/a	None	None
Local agency investment fund (LAIF)	Yes	n/a	\$50 Million	None
JPA pools (other investment pools)	Yes	n/a	25%	None

Notes:

(1) Based on state law requirements or investment policy requirements, whichever is more restrictive.

(2) The combined maximum portfolio exposure to placement service certificates of deposit and negotiable certificates of deposit is 15 percent.

2. **Cash and Investments, (continued)**

(b) **Investments Authorized by Debt Agreements**

Investments of debt proceeds held by bond trustees are governed by provisions of the debt agreements rather than the general provisions of the California Government Code or the Water Authority's investment policy. In addition to the investments authorized in the previous table, debt proceeds held by bond trustees may be invested in guaranteed investment contracts with a maximum maturity that is limited to the final maturity of the bonds being issued.

(c) **Disclosures Relating to Interest Rate Risk**

Interest rate risk is the risk where changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Water Authority manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or approaching maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the Water Authority's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the Water Authority's investments by terms to maturity:

Investment Type	Fair Value	Remaining Term to Maturity			
		12 months or less	13 to 36 months	37 to 60 months	More than 60 months
U.S. Treasury securities	\$ 72,445,944	\$ 54,319,386	\$ 18,126,558	\$ -	\$ -
Federal agency securities	380,524,045	215,197,571	165,326,474	-	-
Commercial paper	45,212,733	45,212,733	-	-	-
Certificates of deposit	17,095,944	17,095,944	-	-	-
LAIF	245,522,345	245,522,345	-	-	-
JPA pools	84,887,198	84,887,198	-	-	-
Money market funds	1,177,370	1,177,370	-	-	-
Held by bond trustees:					
Money market funds	450,382	450,382	-	-	-
U.S. Treasury securities	37,993,173	37,993,173	-	-	-
Investment contracts	30,626,525	-	-	-	30,626,525
Total	\$ 915,935,659	\$ 701,856,102	\$ 183,453,032	\$ -	\$ 30,626,525

2. **Cash and Investments, (continued)**

(d) **Disclosures Relating to Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required (where applicable) by the California Government Code, the Water Authority's investment policy, or debt agreements, and the actual rating as of year-end for each investment type.

Investment Type	Fair Value	Minimum Legal Rating	Exempt From Disclosure	Rating as of Year-End		
				AAA	A1	Not Rated
U.S. Treasury securities	\$ 72,445,944	n/a	\$ 72,445,944	\$ -	\$ -	\$ -
Federal agency securities	380,524,045	n/a	-	380,524,045	-	-
Commercial paper	45,212,733	A1	-	-	45,212,733	-
Certificates of deposit	17,095,944	n/a	-	-	-	17,095,944
Local agency investment fund	245,522,345	n/a	-	-	-	245,522,345
JPA pools	84,887,198	AAAm	-	84,887,198	-	-
Money market funds	1,177,370	AAAm	-	1,177,370	-	-
Held by bond trustees:						
Money market funds	450,382	AAAm	-	450,382	-	-
U.S. Treasury securities	37,993,173	n/a	37,993,173	-	-	-
Investment contracts	30,626,525	n/a	-	-	-	30,626,525
Total	\$915,935,659		\$110,439,117	\$467,038,995	\$45,212,733	\$293,244,814

(e) **Concentration of Credit Risk**

The investment policy of the Water Authority contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent five percent or more of total Water Authority investments are as follows:

Issuer	Investment Type	Reported Amount	% of Total Investments
<i>Federal Home Loan Bank</i>	<i>Federal agency securities</i>	<i>\$164,734,614</i>	<i>18.0%</i>
<i>Federal National Mortgage Association</i>	<i>Federal agency securities</i>	<i>137,988,191</i>	<i>15.1%</i>
<i>Federal Home Loan Mortgage Corporation</i>	<i>Federal agency securities</i>	<i>46,163,241</i>	<i>5.0%</i>

2. Cash and Investments, (continued)

(f) Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (for example, broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Water Authority's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure Water Authority deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits.

(g) Investment in State Investment Pool

The Water Authority is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the Water Authority's investment in this pool is reported in the accompanying financial statements at amounts based upon the Water Authority's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

3. Inventories

The Water Authority inventories are valued using the average cost method. Components of inventories at June 30 are as follows:

	2010	2009
Water in storage	\$ 24,103,433	\$ 25,646,989
Valves in storage	860,040	1,250,975
Materials in storage	<u>435,101</u>	<u>204,981</u>
Total inventories	<u>\$ 25,398,574</u>	<u>\$ 27,102,945</u>

4. Prepaid water

In March 2008, the Water Authority executed an agreement with Butte Water District and Sutter Extension Water District to purchase 10,006 and 13,071 acre-feet of transfer water. In March 2009, the Water Authority executed an agreement with Placer County Water Agency and prepaid for rights to purchase 20,000 acre-feet of transfer water. The Water Authority bought and sold the water in fiscal year 2010.

Since this water is currently outside the Water Authority's service area, it is classified as Prepaid Water on the Statements of Net Assets. The balance as of June 30, 2010 and 2009 was \$4,615,500 and \$5,713,500, respectively.

5. Long-Term Receivables

(a) Proposition 1A State Borrowing

Under the provisions of Proposition 1A Borrowing by the State of California and as part of the 2009-10 budget package passed by the California state legislature on July 28, 2009, the State of California borrowed eight percent of the amount of property tax revenue, including those property taxes associated with the in-lieu motor vehicle license fee, the triple flip in lieu sales tax, and supplemental property tax, apportioned to cities, counties, and special districts (excluding redevelopment agencies). The state is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California legislature may consider only one additional borrowing within a ten-year period. The amount of this borrowing pertaining to the Water Authority was \$688,268.

This borrowing by the State of California was recognized as a receivable in the accompanying financial statements. The tax revenues were recognized in the fiscal year for which they were levied.

(b) Imperial Irrigation District

In October 2003, the Water Authority amended the Transfer Agreement with IID. As part of this amendment, the Water Authority made initial socioeconomic impact payments of \$10,000,000 in four installments. These funds will be used to pay for the initial administrative costs and estimated and annual cumulative socioeconomic impact costs.

Beginning in calendar year 2019, the Water Authority will begin receiving credits from the IID to be applied against any payments due and shall continue until calendar year 2048 or until the agreement is terminated, whichever comes first. If the agreement terminates before calendar year 2048, the IID is under no obligation to pay the Water Authority the remaining balance of the loan.

Under the terms of the amended agreement, in December 2007 the Water Authority paid IID \$10,000,000 for future deliveries of water. Interest on the prepayment shall begin to accrue December 31, 2019 using the Water Authority's weighted average cost of funds for its short-term and long-term debt outstanding as shown in the Water Authority's annual financial report for each fiscal year ending June 30th. If not repaid sooner, beginning December 31, 2019 through December 31, 2033, IID shall credit the Water Authority's monthly invoice for conserved water in 180 equal monthly installments of \$55,556 plus accrued interest.

For the fiscal years ended June 30, 2010 and 2009, the total long-term loan receivables balance was \$20,688,268 and \$20,000,000, respectively.

6. Capital Assets

Capital asset activity for the fiscal years ended June 30, 2010 and 2009:

	Balance at June 30, 2008, as Restated	Additions	Deletions	Transfers
Capital assets not depreciated:				
Land	\$ 13,283,900	\$ -	\$ -	\$ (155,556)
Construction in progress	1,051,556,553 ⁽¹⁾	292,277,469	(573,570)	(40,332,354)
Work in progress	612,973	136,044	-	-
Total capital assets not depreciated	1,065,453,426	292,413,513	(573,570)	(40,487,910)
Other capital assets:				
Olivenhain Dam	175,971,199	-	-	-
Water transportation pipelines	960,401,118	6,310	(9,229)	33,815,563
Pumping plants and facilities	171,651,588	-	-	2,054,668
Treatment plants and facilities	25,620,355	-	-	-
Automobiles	6,214,680	89,803	(185,472)	(3,160)
Miscellaneous	49,885,451	1,181,050	(3,319,056)	1,205,384
Intangible assets (Note 1f):				
Easements	-	-	-	155,556
Computer systems software	-	-	-	3,253,579
Participation and capacity rights (Note 7)	105,829,841	26,749,900	-	-
Total other capital assets and intangible assets	1,495,574,232	28,027,063	(3,513,757)	40,481,590
Accumulated depreciation (Note 1f):				
Olivenhain Dam	(8,798,560)	-	-	-
Water transportation pipelines	(170,296,844)	(15,541,813)	9,229	-
Pumping plants and facilities	(24,323,529)	(4,032,250)	-	-
Treatment plants and facilities	(3,827,207)	(640,975)	-	-
Automobiles	(5,080,038)	(367,420)	185,472	-
Miscellaneous	(27,030,947)	(4,233,772)	3,312,654	2,275,874
Accumulated amortization (Note 1f):				
Computer systems software	-	(67,783)	-	(2,275,874)
Participation and capacity rights (Note 7)	(6,294,087)	(5,154,374)	-	-
Total accumulated depreciation and amortization	(245,651,212)	(30,038,387)	3,507,355	-
Other capital assets, net	1,249,923,020	(2,011,324)	(6,402)	40,481,590
Total capital assets, net	\$ 2,315,376,446	\$ 290,402,189	\$ (579,972)	\$ (6,320)

Notes:

(1) Net assets at June 30, 2008 were restated by \$6,388,823 to reflect the cancellation of the Groundwater Storage and Recovery Project. The project costs had been capitalized as construction in progress in prior years; and also were restated by \$79,846,618 to reflect the capitalization of the Coachella Valley Canal Lining Project. Net assets at June 30, 2009 were restated by \$827,976 to reflect the capitalization of delay damages related to the Olivenhain-Hodges Pumped Storage Facility.

6. Capital Assets, (continued)

Balance at June 30, 2009, as Restated	Additions	Deletions	Transfers	Balance at June 30, 2010
\$ 13,128,344	\$ -	\$ (6,248)	\$ 5,943,351	\$ 19,065,447
1,302,928,098 ⁽¹⁾	261,452,590	(1,207)	(364,689,240)	1,199,690,241
749,017	-	-	(107,952)	641,065
<u>1,316,805,459</u>	<u>261,452,590</u>	<u>(7,455)</u>	<u>(358,853,841)</u>	<u>1,219,396,753</u>
175,971,199	-	-	-	175,971,199
994,213,762	25,944	(1,160,323)	59,236,422	1,052,315,805
173,706,256	-	(143,227)	162,803,773	336,366,802
25,620,355	-	-	-	25,620,355
6,115,851	-	(357,468)	107,952	5,866,335
48,952,829	338,045	(4,300,891)	8,525,763	53,515,746
155,556	-	(1,368)	869,699	1,023,887
3,253,579	-	-	-	3,253,579
132,579,741	-	(1,211,343)	127,310,232	258,678,630
<u>1,560,569,128</u>	<u>363,989</u>	<u>(7,174,620)</u>	<u>358,853,841</u>	<u>1,912,612,338</u>
(8,798,560)	(1,759,712)	-	-	(10,558,272)
(185,829,428)	(13,896,046)	984,221	-	(198,741,253)
(28,355,779)	(4,668,756)	118,846	-	(32,905,689)
(4,468,182)	(640,975)	-	-	(5,109,157)
(5,261,986)	(351,274)	338,320	-	(5,274,940)
(25,676,191)	(3,356,944)	3,258,730	56,478	(25,717,927)
(2,343,657)	(758,474)	-	-	(3,102,131)
(11,448,461)	(5,221,029)	1,211,343	(56,478)	(15,514,625)
<u>(272,182,244)</u>	<u>(30,653,210)</u>	<u>5,911,460</u>	<u>-</u>	<u>(296,923,994)</u>
<u>1,288,386,884</u>	<u>(30,289,221)</u>	<u>(1,263,160)</u>	<u>358,853,841</u>	<u>1,615,688,344</u>
<u>\$ 2,605,192,343</u>	<u>\$ 231,163,369</u>	<u>\$ (1,270,615)</u>	<u>\$ -</u>	<u>\$ 2,835,085,097</u>

7. Participation and Capacity Rights

The Water Authority builds capital assets that, by agreement, entitle it to certain participation and capacity rights. The total participation and capacity rights, net of amortization, were \$243,164,005 as of June 30, 2010.

(a) Quantification Settlement Agreement Joint Powers Authority Participation Rights

Pursuant to the Quantification Settlement Agreement Joint Powers Authority Creation and Funding Agreement (the Agreement), the Water Authority agreed with IID, Coachella Valley Water District (CVWD), and the State of California, to accept responsibility for certain environmental mitigation requirements.

Under Article IX of the Agreement, the environmental mitigation contribution required by the Water Authority was \$52,220,859. Amortization is computed using the acre-feet assigned per calendar year over the life of the agreement, which is 75 years.

In addition, the Agreement required the Water Authority to pay \$11,779,141 as a contribution to the Salton Sea Restoration Fund. Amortization is computed utilizing the straight-line method over the life of the agreement, which is 45 years.

(b) Imperial Irrigation District Socioeconomic Participation Rights

IID and the Water Authority resolved a dispute concerning the nature and extent of the obligations and covenants under Section 14.5 of the Revised Fourth Amendment to the Agreement between IID and the Water Authority for the Transfer of Conserved Water by agreeing to additional annual payments to be made to IID totaling \$29,520,000 over the period of ten years.

(c) Canal Relining Participation Rights

On October 10, 2003 the Water Authority assumed MWD's rights and obligations for the All-American Canal and Coachella Canal Lining Projects under Article 4A of the Colorado River Water Delivery Settlement Allocation Agreement between the United States, MWD, IID, CVWD, and the San Luis Rey Indian Water Authority (SLR). The agreement required payment of \$4,321,185 to the IID for MWD's outstanding obligations.

The Agreement specifically assigned the project of lining the Coachella Canal, which is a branch from the Colorado River and is owned by the U.S. Bureau of Reclamation, to the Water Authority. The lining of the canal was in order to control water seepage through the previous unlined canal. The Coachella Canal now provides a firm supply of 21,500 acre-feet per year to the Water Authority. The cost of the project was offset by a funding agreement with the Department of Water Resources for \$79,447,974. Participation rights for this project totaled \$116,652,602 and are amortized utilizing the straight-line method over the life of the agreement, which is 110 years.

7. Participation and Capacity Rights, (continued)

(d) Vidler and Semitropic Participation Rights

In July 2008, the Water Authority entered into agreements with Vidler Water Company (Vidler) and Semitropic-Rosamond Water Bank (Semitropic) that entitles the Water Authority to storage, withdrawal, and exchange rights within the Semitropic Water Banking and Exchange Program, the Semitropic Water Bank Recovery Unit, and the Antelope Valley Water Bank.

The Water Authority bought Vidler's 30,000 acre-feet of storage and recovery rights in the Semitropic Water Storage District's underground basin in Kern County. The Water Authority also invested in the Semitropic, which will provide a total of 40,000 acre-feet of storage rights, for a total amount of 70,000 acre-feet.

Storage and recovery rights for this program totaled \$11,749,900 for Vidler and \$15,000,000 for Semitropic as of June 30, 2010. These rights are amortized using the straight-line method over the life of the agreement, which ends in 2035.

(e) Moreno-Lakeside Pipeline Capacity Rights

In April 1997, the Water Authority entered into an agreement with Helix Water District for installation of a raw water transmission pipeline, a flow control facility and expansion of the R.M. Levy Water Treatment Plant. Helix owns, operates, and maintains the R.M. Levy Water Treatment Plant and agreed to its phased expansion. The design capacity shall be 106 million gallons per day (mgd) with the Water Authority having capacity rights to 26 mgd. In April 2006, a third amendment to the agreement with Helix Water District transferred to the Water Authority 10 mgd capacity in the R.M. Levy Water Treatment Plant, for total capacity rights of 36 mgd. Capacity rights for this project totaled \$6,777,313 as of June 30, 2010 and are being amortized using the straight-line method over ten years.

(f) Los Coches Pump Station and Helix Flume Pipeline Capacity Rights

In April 2006, the Water Authority entered into an agreement with Helix Water District regarding implementation of the East County Regional Treated Water Improvement Program (ECRTWIP). The purpose of the ECRTWIP is to significantly improve the regional water treatment capacity in East County by maximizing utilization of the R.M. Levy Water Treatment Plant to provide additional capacity to Otay Water District, Lakeside Water District, and Padre Dam Municipal Water District. The Los Coches Pump Station, which pumps into the Helix Flume Pipeline, was increased from 22 mgd to 64 mgd, with the Water Authority having capacity rights to 24 mgd. A section of the Helix Flume Pipeline had to be replaced with a new 48-inch steel pipe to withstand the increased pressure, with the Water Authority having capacity rights to 12 mgd. Capacity rights for Los Coches Pump Station totaled \$5,625,153 and for Helix Flume Pipeline totaled \$5,032,477 as of June 30, 2010, and are being amortized using the straight-line method over 10 years.

8. Short-Term Liabilities

Short-term liabilities activity for the fiscal years ended June 30, 2010 and 2009:

	Balance at June 30, 2008	Additions	Deletions
Short-term debt:			
Commercial Paper - Series 1	\$ 110,000,000	\$ 1,220,650,000	\$ (1,220,650,000)
Commercial Paper - Series 2	175,000,000	701,500,000	(701,500,000)
Commercial Paper - Series 3	175,000,000	3,344,305,000	(3,344,305,000)
Total short-term debt	\$ 460,000,000	\$ 5,266,455,000	\$ (5,266,455,000)

The Water Authority has a Tax-Exempt Commercial Paper (TECP) program through which it can borrow funds on a tax-exempt basis for periods up to 270 days to provide financing for the Water Authority's capital improvement program. The TECP program is comprised of three separate series with a total maximum authorized amount of \$460,000,000.

The Water Authority has remarketing agreements with five separate broker-dealers: Banc of America Securities LLC/Merrill Lynch, JPMorgan Chase & Co., Citigroup Global Markets Inc., Barclays Capital Inc., and Goldman, Sachs and Co. The remarketing fees for the various dealer agreements range from 0.035 percent to 0.100 percent per annum on the par amount of TECP outstanding. No advances have been made under any of the revolving-credit and term-loan agreements during the fiscal year ended June 30, 2010.

The TECP notes are secured and payable on a parity basis solely from net water revenues and are subordinate to the Water Revenue Certificates of Participation (COPs). At June 30, 2010 and 2009, the Water Authority had \$460,000,000 of commercial paper outstanding.

8. Short-Term Liabilities, (continued)

Balance at June 30, 2009	Additions	Deletions	Balance at June 30, 2010	Amounts Due Within One Year
\$ 110,000,000	\$ 934,570,000	\$ (934,570,000)	\$ 110,000,000	\$ 110,000,000
175,000,000	904,750,000	(904,750,000)	175,000,000	175,000,000
<u>175,000,000</u>	<u>3,029,675,000</u>	<u>(3,029,675,000)</u>	<u>175,000,000</u>	<u>175,000,000</u>
<u><u>\$ 460,000,000</u></u>	<u><u>\$ 4,868,995,000</u></u>	<u><u>\$ (4,868,995,000)</u></u>	<u><u>\$ 460,000,000</u></u>	<u><u>\$ 460,000,000</u></u>

(a) Commercial Paper Series 1

The total maximum authorized amount of Series 1 is \$110,000,000. Series 1 has liquidity support in the form of revolving-credit and term-loan agreements with Bayerische Landesbank, and unless otherwise extended, will terminate on June 30, 2013. During the term of the agreement the Water Authority pays annual commitment fees based on the par amount of the commitment or 0.70 percent.

(b) Commercial Paper Series 2

Series 2 has a total maximum authorized amount of \$175,000,000 and was issued on November 15, 2006. Series 2 has liquidity support in the form of revolving-credit and term-loan agreements with BNP Paribas, and unless otherwise extended, will terminate on November 15, 2011. During the term of the agreement the Water Authority pays annual commitment fees based on the par amount of the commitment or 0.095 percent.

(c) Commercial Paper Series 3

The total maximum authorized amount of Series 3 is \$175,000,000 and the TECP was issued on November 15, 2006. Series 3 has liquidity support in the form of revolving-credit and term-loan agreements with Dexia Credit Local, and unless otherwise extended, will terminate on November 15, 2011. During the term of the agreement the Water Authority pays annual commitment fees based on the par amount of the commitment or 0.095 percent.

9. Long-Term Liabilities

Long-term liabilities activity for the fiscal years ended June 30, 2010 and 2009:

	Balance at June 30, 2008	Additions	Deletions
Long-term debt:			
2010A Water Revenue Non-AMT Tax-Exempt Bonds (Note 9a)	\$ -	\$ -	\$ -
2010B Water Revenue BABs (Note 9b)	-	-	-
2008A Water Revenue COPs (Note 9c)	558,015,000	-	-
2005A Water Revenue Refunding COPs (Note 9d)	107,455,000	-	-
2004A Water Revenue COPs (Note 9e)	425,000,000	-	-
2002A Water Revenue COPs (Note 9f)	255,855,000	-	(6,120,000)
1998A Water Revenue COPs (Note 9g)	62,690,000	-	-
1997A Water Revenue COPs (Note 9h)	23,610,000	-	-
1993A Water Revenue Refunding COPs (Note 9i)	13,700,000	-	(13,700,000)
Total long-term debt	<u>1,446,325,000</u>	-	<u>(19,820,000)</u>
Other liabilities:			
Contributions payable (Note 9j)	76,913,801	3,140,012	(4,363,369)
Compensated absences (Note 1g)	5,232,786	4,131,546	(3,172,329)
OPEB liability (Note 12)	179,000	324,000	(139,000)
Arbitrage rebate (Note 1h)	874,731	-	(466,906)
Total long-term liabilities	<u>1,529,525,318</u>	<u>\$ 7,595,558</u>	<u>\$ (27,961,604)</u>
Unamortized bond discounts/premiums, deferred loss on refunding	26,091,232		
Total long-term liabilities, net	<u>\$ 1,555,616,550</u>		

9. Long-Term Liabilities, (continued)

Balance at June 30, 2009	Additions	Deletions	Balance at June 30, 2010	Amounts Due Within One Year
\$ -	\$ 98,495,000	\$ -	\$ 98,495,000	\$ -
-	526,135,000	-	526,135,000	-
558,015,000	-	-	558,015,000	-
107,455,000	-	-	107,455,000	-
425,000,000	-	-	425,000,000	-
249,735,000	-	(6,365,000)	243,370,000	6,620,000
62,690,000	-	(51,005,000)	11,685,000	-
23,610,000	-	-	23,610,000	17,500,000
-	-	-	-	-
<u>1,426,505,000</u>	<u>624,630,000</u>	<u>(57,370,000)</u>	<u>1,993,765,000</u>	<u>24,120,000</u>
75,690,444	-	(7,951,649)	67,738,795	2,940,000
6,192,003	3,971,547	(3,839,201)	6,324,349	4,174,070
364,000	436,000	(157,000)	643,000	424,380
<u>407,825</u>	<u>-</u>	<u>(1)</u>	<u>407,824</u>	<u>-</u>
<u>1,509,159,272</u>	<u>\$ 629,037,547</u>	<u>\$ (69,317,851)</u>	<u>2,068,878,968</u>	<u>\$ 31,658,450</u>
<u>25,934,667</u>			<u>33,195,879</u>	
<u>\$ 1,535,093,939</u>			<u>\$ 2,102,074,847</u>	

9. Long-Term Liabilities, (continued)

(a) 2010A Water Revenue Non-AMT Tax-Exempt Bonds

To provide funds for a portion of the design, acquisition, and construction of various capital projects in furtherance of the Water Authority’s CIP, the San Diego County Wafa issued 2010A Water Revenue Tax Exempt Bonds on February 4, 2010 in the aggregate principal amount of \$98,495,000. A portion of the proceeds were used to refund \$51,005,000 of the outstanding 1998A COPs on March 8, 2010. The balance of proceeds will be used to finance CIP projects, including interest incurred during construction. At June 30, 2010, \$11,685,000 of 1998A COPs remains outstanding.

The tax-exempt bonds, with an aggregate principal amount of \$98,495,000, have stated interest rates ranging from 4.00 percent to 5.25 percent payable semi-annually on May 1 and November 1.

The 2010A bonds are limited obligations of the Wafa and are payable solely from revenues and the other assets pledged therefore under the Trust Agreement. The Water Authority is obligated to make contract payments, solely from net water revenues, the combined totals of which equal the principal of and interest on the 2010A bonds. No debt service reserve fund was created to secure the 2010A bonds.

The 2010A Water Revenue Tax-Exempt Bonds were issued at a premium of \$8,439,125 with issuance costs of \$648,183. The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$834,620. This difference, reported in the accompanying financial statements as a decrease in bonds payable, is being charged to operations through the year 2027 using the life of the new debt, which was shorter than the remaining life of the old debt. This transaction resulted in an economic gain of \$1,984,683. In addition, the refunding resulted in a cash flow savings (difference in cash flows between the refunded bonds and the new bonds) of \$3,626,860.

Included in the interest expense for the fiscal year ended June 30, 2010 is an annual amortization for premium of \$206,841 and for loss on refunding of \$20,455. The principal balance of outstanding bonds at June 30, 2010 was \$98,495,000 or \$105,913,119, net of unamortized premium of \$8,232,284 and unamortized loss on refunding of \$814,165.

The total debt service payment requirements with respect to the above bonds are as follows:

2010A Water Revenue Non-AMT Tax-Exempt Bonds

Year	Principal	Interest	Total
2011	\$ -	\$ 4,722,425	\$ 4,722,425
2012	-	4,722,425	4,722,425
2013	-	4,722,425	4,722,425
2014	1,570,000	4,722,425	6,292,425
2015	2,560,000	4,659,625	7,219,625
2016-2020	21,565,000	21,087,425	42,652,425
2021-2025	52,375,000	14,303,025	66,678,025
2026-2027	20,425,000	1,494,250	21,919,250
Total	\$ 98,495,000	\$ 60,434,025	\$ 158,929,025

9. Long-Term Liabilities, (continued)

(b) 2010B Water Revenue Taxable Build America Bonds

To provide funds for a portion of the design, acquisition, and construction of various capital projects in furtherance of the Water Authority's CIP, the San Diego County Wafa issued 2010B Water Revenue Taxable Build America Bonds (BABs) on February 4, 2010 in the aggregate principal amount of \$526,135,000.

The taxable bonds, with an aggregate principal amount of \$526,135,000, have a stated interest rate of 6.138 percent payable semi-annually on May 1 and November 1.

The 2010B bonds were designated as BABs under the provisions of the American Recovery and Reinvestment Act of 2009, the interest with respect to which is not excluded from gross income for federal income tax purposes, but is exempt from State of California personal income taxes. The Water Authority will receive interest subsidy payments from the United States Treasury equal to 35 percent of the interest payable.

The 2010B bonds are limited obligations of the Wafa and are payable solely from revenues and the other assets pledged therefore under the Trust Agreement. The Water Authority is obligated to make contract payments, solely from net water revenues, the combined totals of which equal the principal of and interest on the 2010B bonds. No debt service reserve fund was created to secure the 2010B bonds.

The 2010B Water Revenue BABs were issued at par for \$526,135,000 with issuance costs of \$4,991,033. The principal balance of outstanding bonds at June 30, 2010 was \$526,135,000.

The total debt service payment requirements with respect to the above bonds are as follows:

2010B Water Revenue Taxable BABs

Year	Principal	Interest	Total
2011	\$ -	\$ 32,294,166	\$ 32,294,166
2012	-	32,294,166	32,294,166
2013	-	32,294,166	32,294,166
2014	-	32,294,166	32,294,166
2015	-	32,294,166	32,294,166
2016-2020	-	161,470,832	161,470,832
2021-2025	1,735,000	161,470,832	163,205,832
2026-2030	33,715,000	156,961,243	190,676,243
2031-2035	73,375,000	143,961,266	217,336,266
2036-2040	123,625,000	113,488,858	237,113,858
2041-2045	150,340,000	72,397,403	222,737,403
2046-2049	143,345,000	22,426,411	165,771,411
Total	\$ 526,135,000	\$ 993,647,675	\$ 1,519,782,675

9. Long-Term Liabilities, (continued)

(c) 2008A Water Revenue Certificates of Participation

To provide funds for a portion of the design, acquisition, and construction of various capital projects in furtherance of the Water Authority's CIP, the Water Authority issued 2008A Water Revenue COPs on May 1, 2008 in the aggregate principal amount of \$558,015,000. A portion of the proceeds were used to make an early payment of \$64,238,181 on the outstanding 1997A COPs on June 23, 2008.

The Serial Certificates, with an aggregate principal amount of \$558,015,000, have stated interest rates ranging from 4.00 percent to 5.00 percent payable semi-annually on May 1 and November 1.

The certificates require that a reserve be maintained in an amount equal to the lesser of \$23,670,625 or one-half of maximum annual debt service of the 2008A Certificates. At June 30, 2010 and 2009 the reserve requirement was fully satisfied by a Reserve Surety Policy issued by Financial Security Assurance, Inc. (FSA). The certificates are also insured by FSA.

The 2008A Water Revenue Certificates were issued at a premium of \$19,063,710 with issuance costs of \$7,147,600. Included in the interest expense for the fiscal year ended June 30, 2010 is an annual premium amortization of \$614,400. The principal balance of outstanding certificates at June 30, 2010 was \$558,015,000 or \$575,167,058, net of unamortized premium of \$17,152,058.

The total debt service payment requirements with respect to the above COPs are as follows:

2008A Water Revenue COPs

Year	Principal	Interest	Total
2011	\$ -	\$ 27,790,900	\$ 27,790,900
2012	1,865,000	27,790,900	29,655,900
2013	9,120,000	27,716,300	36,836,300
2014	10,920,000	27,351,500	38,271,500
2015	11,360,000	27,351,500	38,711,500
2016-2020	78,130,000	124,403,500	202,533,500
2021-2025	56,615,000	105,996,000	162,611,000
2026-2030	93,985,000	89,783,750	183,768,750
2031-2035	167,100,000	58,912,250	226,012,250
2036-2038	128,920,000	13,101,500	142,021,500
Total	<u>\$ 558,015,000</u>	<u>\$ 530,198,100</u>	<u>\$ 1,088,213,100</u>

9. **Long-Term Liabilities, (continued)**

(d) **2005A Water Revenue Refunding Certificates of Participation**

On February 1, 2005 the Water Authority issued 2005A Water Revenue Refunding COPs in the amount of \$107,455,000 to refund, in advance, \$117,310,000 of the 1998A COPs with stated interest rates between 4.75 percent and 5.25 percent.

The Serial Certificates, with an aggregate principal amount of \$107,455,000, have stated interest rates ranging from 5.00 percent to 5.25 percent payable semi-annually on May 1 and November 1. These certificates mature serially through May 1, 2022.

The certificates require that a reserve be maintained in an amount equal to the lesser of \$10,745,500 or maximum annual debt service on the 2005A Certificates. At June 30, 2010 and 2009 the reserve requirement was fully satisfied by a Reserve Surety Policy issued by Financial Guaranty Insurance Company (FGIC). FGIC also insures the certificates.

The 2005A Water Revenue Refunding Certificates were issued at a premium of \$14,343,160 with issuance costs of \$1,152,055. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$9,890,822. This difference, reported in the accompanying financial statements as a decrease in bonds payable, is being charged to operations through fiscal year 2022. Included in interest expense for the fiscal year ended June 30, 2010 is an annual amortization for premium of \$835,524 and for loss on refunding of \$581,808. The principal balance of outstanding certificates at June 30, 2010 was \$107,455,000 or \$110,554,208, net of unamortized premium of \$9,887,032 and unamortized loss on refunding of \$6,787,824.

The total debt service payment requirements with respect to the above COPs are as follows:

2005A Water Revenue Refunding COPs			
Year	Principal	Interest	Total
2011	\$ -	\$ 5,580,563	\$ 5,580,563
2012	11,725,000	5,580,563	17,305,563
2013	12,240,000	4,994,313	17,234,313
2014	12,605,000	4,351,713	16,956,713
2015	13,510,000	4,351,713	17,861,713
2016-2020	43,575,000	8,949,675	52,524,675
2021-2022	13,800,000	1,095,935	14,895,935
Total	<u>\$ 107,455,000</u>	<u>\$ 34,904,475</u>	<u>\$ 142,359,475</u>

9. Long-Term Liabilities, (continued)

(e) 2004A Water Revenue Certificates of Participation

To provide funds for a portion of the design, acquisition, and construction of various capital projects in furtherance of the Water Authority's CIP, the Water Authority issued 2004A Water Revenue Certificates of Participation on September 1, 2004 in the aggregate principal amount of \$425,000,000. A portion of the proceeds were used to make an early payment of \$56,700,000 on the 1991B Certificates of Participation on December 1, 2004.

The Serial Certificates with an aggregate principal amount of \$318,295,000 have stated interest rates between 4.00 percent and 5.25 percent payable semi-annually on May 1 and November 1. These certificates mature annually through May 1, 2031. The Term Certificates with an aggregate principal amount of \$106,705,000 have a stated interest rate of 5.00 percent payable semi-annually on May 1 and November 1. These certificates are due May 1, 2034.

The certificates require that a reserve be maintained in an amount equal to the lesser of \$38,568,617 or maximum annual debt service on the 2004A Certificates. At June 30, 2010 and 2009 the reserve was fully funded. The certificates are insured by FSA.

The 2004A Water Revenue Certificates were issued at a premium of \$11,438,625 and issuance costs of \$2,837,544. The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$6,200,156. This difference, reported in the accompanying financial statements as a decrease in bonds payable, is being charged to operations through the year 2011. Included in interest expense for the fiscal year ended June 30, 2010 is an annual amortization for premium of \$386,653 and for loss on refunding of \$966,265. The principal balance of outstanding certificates at June 30, 2010 was \$425,000,000 or, \$433,410,501 net of unamortized premium of \$9,215,709 and unamortized loss from refunding of \$805,208.

The total debt service payment requirements with respect to the above certificates of participation are as follows:

2004A Water Revenue COPs

Year	Principal	Interest	Total
2011	\$ -	\$ 20,929,425	\$ 20,929,425
2012	-	20,929,425	20,929,425
2013	-	20,929,425	20,929,425
2014	-	20,929,425	20,929,425
2015	-	20,929,425	20,929,425
2016-2020	37,240,000	103,916,925	141,156,925
2021-2025	109,260,000	86,657,650	195,917,650
2026-2030	139,560,000	56,349,500	195,909,500
2031-2034	138,940,000	17,790,750	156,730,750
Total	\$ 425,000,000	\$ 369,361,950	\$ 794,361,950

9. Long-Term Liabilities, (continued)

(f) 2002A Water Revenue Certificates of Participation

To provide funds for a portion of the design, acquisition, and construction of the Water Authority's Emergency Storage Project and other water system improvements in furtherance of the Water Authority's CIP, the Water Authority issued 2002A Water Revenue Certificates of Participation on May 1, 2002 in the aggregate principal amount of \$300,000,000. A portion of the proceeds were used to make an early payment of \$12,300,000 on the 1991A Certificates of Participation on July 15, 2002.

The Serial Certificates with an aggregate principal amount of \$249,935,000 have stated interest rates ranging from 3.00 percent to 5.00 percent payable semi-annually on May 1 and November 1. These certificates mature annually through May 1, 2029, subject to optional prepayments beginning May 1, 2012.

The Term Certificates with an aggregate principal amount of \$50,065,000 have a stated interest rate of 5.00 percent payable semi-annually on May 1 and November 1. An amount of \$15,880,000 of these certificates is due May 1, 2030, \$16,675,000 is due May 1, 2031, and \$17,510,000 is due May 1, 2032.

The certificates require that a reserve be maintained in an amount equal to the lesser of \$18,385,750 or maximum annual debt service on the 2002A Certificates. At June 30, 2010 and 2009 the reserve was fully funded. The certificates are insured by Municipal Bond Insurance Association, Inc. (MBIA).

The 2002A Water Revenue Certificates were issued at a discount of \$3,948,000 and issuance costs of \$2,271,000. Included in interest expense for the fiscal year ended June 30, 2010 is an annual amortization for discount of \$131,593. The principal balance of outstanding certificates at June 30, 2010 was \$243,370,000 or, \$240,485,993 net of unamortized discount of \$2,884,007.

The total debt service payment requirements with respect to the above certificates of participation are as follows:

2002A Water Revenue COPs			
Year	Principal	Interest	Total
2011	\$ 6,620,000	\$ 11,764,878	\$ 18,384,878
2012	6,885,000	11,500,078	18,385,078
2013	7,160,000	11,224,678	18,384,678
2014	7,455,000	10,929,328	18,384,328
2015	7,770,000	10,612,490	18,382,490
2016-2020	44,540,000	47,377,443	91,917,443
2021-2025	56,560,000	35,354,500	91,914,500
2026-2030	72,195,000	19,727,250	91,922,250
2031-2032	34,185,000	2,584,748	36,769,748
Total	<u>\$ 243,370,000</u>	<u>\$ 161,075,393</u>	<u>\$ 404,445,393</u>

9. Long-Term Liabilities, (continued)

(g) 1998A Water Revenue Certificates of Participation

To provide funds for the design and construction of the Water Authority's Emergency Storage Project and other water system improvements in furtherance of the Water Authority's CIP, the Water Authority issued 1998A Water Revenue Certificates of Participation on October 15, 1998 in the aggregate principal amount of \$180,000,000.

During fiscal year 2010, \$51,005,000 of the 1998A Certificates were refunded by the 2010A Water Revenue Tax Exempt Bonds. During fiscal year 2006, \$117,310,000 of the 1998A Certificates were refunded by the 2005A Certificates. The principal balance of outstanding certificates at June 30, 2010 and 2009 was \$11,685,000 and \$62,690,000.

The Term Certificates with an aggregate principal amount of \$11,685,000 have stated interest rates ranging from 4.50 percent to 5.25 percent payable semi-annually on May 1 and November 1. An amount of \$11,685,000 is due May 1, 2028. The certificates are insured by FGIC.

The 1998A Water Revenue Certificates were issued at a discount of \$1,202,000 and issuance costs of \$965,000. The certificates required that a reserve be maintained in an amount equal to the lesser of \$15,392,000 or maximum annual debt service on the 1998A Certificates. After refunding, the reserve requirement was reduced to \$12,240,775. At June 30, 2010 and 2009 the reserve was fully funded.

The total debt service payment requirements with respect to the above certificates of participation are as follows:

1998A Water Revenue COPs			
Year	Principal	Interest	Total
2011	\$ -	\$ 555,038	\$ 555,038
2012	-	555,038	555,038
2013	-	555,038	555,038
2014	-	555,038	555,038
2015	-	555,038	555,038
2016-2020	-	2,775,188	2,775,188
2021-2025	-	2,775,188	2,775,188
2026-2028	11,685,000	1,665,109	13,350,109
Total	<u>\$ 11,685,000</u>	<u>\$ 9,990,675</u>	<u>\$ 21,675,675</u>

9. Long-Term Liabilities, (continued)

(h) 1997A Water Revenue Certificates of Participation

On December 1, 1997 the Water Authority issued 1997A Water Revenue Refunding Certificates of Participation in the amount of \$162,315,000 with stated interest rates between 4.00 percent and 5.75 percent to refund, in advance, \$74,035,000 of the 1991A Certificates of Participation with stated interest rates between 6.25 percent and 6.40 percent and \$80,000,000 of the 1991B Certificates of Participation with interest payable at rates determined by auction every fifth week, not to exceed a blended rate of 6.30 percent.

On May 1, 2008 the Water Authority issued 2008A Water Revenue Certificates of Participation and executed a current refunding of the 1997A Certificates eligible for optional prepayment. Under this option, the Water Authority may call certificates on or after May 1, 2008 that have a Certificate Payment Date on or after May 1, 2013. On June 23, 2008, \$64,238,181 of the outstanding 1997A Certificates were refunded. The principal balance of outstanding certificates at June 30, 2010 and 2009 was \$23,610,000.

The outstanding Serial Certificates with an aggregate principal amount of \$23,610,000 have stated interest rate of 5.75 percent payable semi-annually on May 1 and November 1. The two remaining certificates mature serially May 1, 2011 and May 1, 2012.

The Certificates require that a reserve be maintained in an amount equal to the lesser of 10 percent of the principal amount, 100 percent of the maximum annual debt service, or 125 percent of the average annual debt service. A surety bond issued by FSA in the amount of \$15,197,000 has been obtained by the Water Authority and issued in satisfaction of the requirement.

The 1997A Certificates were issued at a premium of \$2,958,000 with issuance costs of \$1,342,000. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$17,184,000.

The total debt service payment requirements with respect to the above certificates of participation are as follows:

1997A Water Revenue COPs			
Year	Principal	Interest	Total
2011	\$ 17,500,000	\$ 1,357,575	\$ 18,857,575
2012	6,110,000	351,325	6,461,325
Total	\$ 23,610,000	\$ 1,708,900	\$ 25,318,900

9. Long-Term Liabilities, (continued)

(i) 1993A Water Revenue Refunding Certificates of Participation

To provide funds for the refunding of the 1989A Water Revenue Certificates of Participation, the Water Authority issued the 1993A Certificates of Participation in February 1993 in the aggregate principal amount of \$135,650,000.

The Series 1993A Current Interest Certificates, with an aggregate principal amount of \$85,050,000, have stated interest rates ranging from 3.50 percent to 5.50 percent payable semi-annually on May 1 and November 1. These certificates mature serially through May 1, 2007 and are not subject to prepayment. The Series 1993A Floating Auction Tax Exempts (FLOATS) with an aggregate principal amount of \$25,300,000 carry an interest rate determined by auction every 28 days. The FLOATS are due April 22, 2009, subject to mandatory prepayments beginning in 2007. The Series 1993A Residual Interest Tax Exempt Securities (RITES) with an aggregate principal amount of \$25,300,000 carry interest rates determined by a fixed component and an auction rate component payable every 28 days, not to exceed 5.75 percent in aggregate. The RITES mature serially between April 26, 2007 and April 22, 2009 and are not subject to mandatory prepayment. Interest rates are subject to minimum and maximum limits and may be fixed by the holder.

The Certificates require that a reserve be maintained in an amount equal to the lesser of \$13,565,000, 100 percent of the maximum annual installment payments, or 125 percent of average annual installment payments. A surety bond issued by FGIC has been obtained by the Water Authority and issued in satisfaction of this requirement. The certificates were paid in full at June 30, 2009.

(j) Contributions Payable

Contributions Payable concern the Water Authority's payment obligations for environmental and socioeconomic impacts related to the Quantification Settlement and other connected Agreements. These payments include contributions to the Quantification Settlement Agreement Joint Powers Authority (QSA JPA) for environmental mitigation pursuant to the QSA JPA Creation and Funding Agreement, and payments to the IID on behalf of the Imperial Valley Socioeconomic Improvement Committee, the Local Entity, to mitigate third-party socioeconomic impacts of the Conserved Water Transfer Agreement.

9. Long-Term Liabilities, (continued)

(j) Contributions Payable, (continued)

(i) On April 25, 2007 the QSA JPA approved an agreement to modify the schedule of contributions payable pursuant to the QSA JPA Creation and Funding Agreement in order to more appropriately match environmental mitigation funding obligations. Contributions payable at June 30, 2010 was \$47,158,795.

The total contributions payable with respect to the QSA JPA Creation and Funding Agreement are as follows:

QSA JPA			
Year	Principal	Interest	Total
2011	\$ -	\$ 2,770,483	\$ 2,770,483
2012	192,687	2,892,116	3,084,803
2013	678,281	2,817,966	3,496,247
2014	2,467,932	2,777,269	5,245,201
2015	2,662,795	2,629,194	5,291,989
2016-2020	21,437,233	9,183,033	30,620,266
2021-2025	17,778,982	4,756,701	22,535,683
2026	1,940,885	116,453	2,057,338
Total	<u>\$ 47,158,795</u>	<u>\$ 27,943,215</u>	<u>\$ 75,102,010</u>

(ii) On May 14, 2007 the Water Authority and the IID executed the Settlement Agreement Resolving Present and Future Disputes under Sections 14.5 and 18.1 of the Revised Fourth Amendment to the IID/Water Authority Conserved Water Transfer Agreement pursuant to which the Water Authority will pay \$40 million according to a payment schedule in the Agreement for third-party socioeconomic impacts as a result of the Conserved Water Transfer Agreement by and between the two agencies. The outstanding balance of the payment obligation on June 30, 2010 was \$20,580,000.

The remaining total contributions payable are as follows:

IID Socioeconomic			
Year	Principal	Interest	Total
2011	\$ 2,940,000	\$ -	\$ 2,940,000
2012	2,940,000	-	2,940,000
2013	2,940,000	-	2,940,000
2014	2,940,000	-	2,940,000
2015	2,940,000	-	2,940,000
2016-2017	5,880,000	-	5,880,000
Total	<u>\$ 20,580,000</u>	<u>\$ -</u>	<u>\$ 20,580,000</u>

9. Long-Term Liabilities, (continued)

(k) Rate Covenants

The General Resolution requires the Water Authority to set rates and charges to provide a minimum level of net revenue. Exclusive of the tax revenue and debt servicing costs associated with voter-approved general obligation bonds and other voter-approved debt, net water revenues as defined by the agreement must equal or exceed 120 percent of senior lien debt service costs (principal and interest). The Water Authority was in compliance with its rate covenants under the General Resolution.

In fiscal year 1990 the Water Authority established a water Rate Stabilization Fund (RSF) for the purpose of identifying amounts available to mitigate future water rate increases. The Water Authority will transfer portions of its net water revenues as defined, which exceed its debt service ratio requirement, into the RSF and from time to time transfer amounts from its RSF into net water revenues to meet its debt service coverage ratio requirements. No transfer was made during the fiscal year ended June 30, 2010 and 2009.

(l) Unamortized Bond Issuance Costs

Included in noncurrent assets at June 30, 2010 and 2009 are deferred financing costs of \$17,282,596 and \$12,263,098 respectively. The deferred financing costs are being amortized over the life of the related obligations.

10. Net Assets

Net assets as of June 30, 2009 have been restated as follows:

Beginning Net Assets, as previously reported	\$ 1,051,196,920
Restatements to record capital assets	
not capitalized in prior years	79,846,618
Beginning Net Assets, as restated	1,131,043,538
Changes in net assets, as previously reported	75,468,535
Reduction of expenses to capitalize delay damages	827,976
Net Assets at End of Year, as restated	\$ 1,207,340,049

Net assets as of June 30, 2009 were restated by \$79,846,618 to properly capitalize the Coachella Valley Canal Lining project which was understated by the amount of funding received from grant revenues. The resulting adjustment was an increase in Construction in Progress and an increase in Net Assets.

In fiscal year 2009, the Water Authority expensed delay damages related to the Olivenhain-Hodges Pumped Storage Facility that should have been capitalized. The resulting adjustment was an increase in Construction in Progress and decrease in Operations and Maintenance expenses, resulting in an overall increase in Net Assets.

11. Defined Benefit Pension Plans

(a) California Public Employees Retirement System

Plan Description

The Water Authority contributes to the California Public Employees Retirement System (CalPERS), an agent multiple-employer public employee defined benefit pension plan. CalPERS provides retirement, disability benefits, 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. A menu of benefit provisions as well as other requirements is established by state statutes within the Public Employee's Retirement Law. The Water Authority selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through Board approval. Copies of CalPERS' annual financial report may be obtained from their executive office at: Lincoln Plaza North, 400 Q Street, Sacramento, CA 95811.

Funding Policy

Participants are required to contribute eight percent of their annual covered salary. Effective July 1, 2006, the Water Authority pays seven percent of the employees required contribution and the employee pays the remaining one percent required contribution. For the fiscal years ended June 30, 2010 and 2009, the amount contributed by the Water Authority on behalf of the employees was \$2,047,687 and \$1,967,727, respectively. Benefit provisions and all other requirements are established by state statute and contracts with employee bargaining groups.

Effective July 1, 2010, Technical/Support, Professional/Administrative, and Managerial/Supervisory employees will increase the amount they pay toward their retirement plan (PERS) by one percent and an additional 2.5 percent effective July 1, 2011, for a total contribution of 4.5 percent. Executive, Senior Management, and Confidential employees will increase their contributions by 3.5 percent, effective July 1, 2010.

Annual Pension Cost and Net Pension Obligation

Under Governmental Accounting Standards Board Statement Number 27 for Pensions by State and Local Government Employees, an employer reports an annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation (NPO). The ARC for the period July 1, 2009 to June 30, 2010 is determined by an actuarial valuation of the plan as of June 30, 2007. The contribution rate indicated for the period is 16.204 percent of payroll. In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of June 30, 2010, this contribution rate was multiplied by the payroll of covered employees that was actually paid during the period July 1, 2009 to June 30, 2010.

Three-Year Trend Information

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>% of APC Contribution</u>	<u>Net Pension Obligation</u>
6/30/08	\$ 4,086,199	100%	\$ -
6/30/09	4,526,549	100%	-
6/30/10	4,771,669	100%	-

11. Defined Benefit Pension Plans, (continued)

(a) California Public Employees Retirement System, (continued)

Annual Pension Cost and Net Pension Obligation

A summary of principal assumptions and methods is shown below.

Valuation Date	June 30, 2008
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	26 Years as of the Valuation Date
Asset Valuation Method	15 Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return	7.75 percent (net of administrative expenses)
Projected Salary Increases	3.25 percent to 14.45 percent depending on age, service, and type of employment
Inflation	3.00 percent
Payroll Growth	3.25 percent
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00 percent and an annual production growth of 0.25 percent

Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS. Subsequent plan amendments are amortized as a level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a rolling period, which results in an amortization of six percent of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30-year amortization period.

The Schedule of Funding Progress below shows the recent history of the actuarial value of assets, actuarial accrued liability, their relationship, and the relationship of the unfunded actuarial accrued liability (UAAL) to payroll.

Valuation Date	Accrued Liability (a)	Actuarial Value of Assets (AVA) (b)	Unfunded Liability (UL) (a)-(b)	Funded Ratios (AVA) (b)/(a)	Market Value	Annual Covered Payroll (c)	UL as a % of Payroll [(a)-(b)]/(c)
6/30/06	\$ 87,662,740	\$ 64,402,460	\$ 23,260,280	73.5%	77.4%	\$ 23,460,216	99.1%
6/30/07	100,612,025	74,904,585	25,707,440	74.4%	85.0%	25,262,078	101.8%
6/30/08	111,911,416	84,191,512	27,719,904	75.2%	75.5%	26,399,083	105.0%

11. Defined Benefit Pension Plans, (continued)

(b) Terminal Pay Plan

Plan Description

The Water Authority established a Terminal Pay Plan (TPP) effective December 10, 2007, which is administered by the Water Authority's Controller who also serves as trustee. The TPP is a defined benefit pension plan established and governed under the Internal Revenue Code Section 401(a) that provides retirement benefits to participants. Each employee of the Water Authority who is entitled to vacation-leave pay or sick-leave pay (under the applicable rules, regulations, and policies) is required to participate in the TPP if the participant terminates employment with the Water Authority on or after reaching the age of 55.

Employees may elect benefits from the TPP be received in a lump sum or in monthly installments over a 60 month period (with no interest). Also, an employee has the right to elect that all or a portion of benefits be rolled over or transferred to an individual retirement account (IRA), a tax sheltered annuity, another tax-qualified retirement plan, or an eligible deferred compensation plan such as a Section 457 deferred compensation plan. A separate financial report is not prepared for the TPP.

Funding Policy

Contributions are made by the Water Authority to the TPP for eligible employees who terminate employment after age 55, and are made as soon as administratively practicable after termination of employment. Amounts held on behalf of participants are fully vested and held in trust at all times. TPP benefits for a participant who separates from Water Authority service or retires are fully vested once they are accrued and the value of TPP benefits is the amount of an employee's terminal pay. No employee contributions are permitted.

Distribution

If the value of benefits is over \$5,000, a distribution will only be made if the employee consents before April 1st following the calendar year in which they reach age 70½. If the value of an employee's vested benefit is \$5,000 or less on the date of termination, benefits will be distributed in a single lump sum.

Changes or Termination of Plan

The Water Authority reserves the right to amend the TPP at any time and for any reason. In the event the TPP is terminated, no additional contributions will be made, but the persons affected will continue to be entitled to the entire benefits under the TPP. Benefits under the TPP are not insured by the Pension Benefit Guaranty Corporation or any other government agency.

<u>Fiscal Year Ended</u>	<u>Annual Required Contribution</u>	<u>Contributions Made</u>	<u>Percentage of Required Contributions Made</u>
6/30/2008	\$786,895	\$786,895	100%
6/30/2009	273,335	273,335	100%
6/30/2010	123,716	123,716	100%

12. Other Post-Employment Benefits (OPEB)

Plan Description

The Water Authority has established a Retiree Healthcare Plan (the Plan), a single-employer defined benefit retiree healthcare plan. The Plan, which is administered by the Water Authority, provides employees who retire directly from the Water Authority at age 55 with five years of service a cash subsidy for monthly medical insurance premiums up to a cap of \$200 per employee or \$320 for employee plus spouse. Payments cease at age 65 when the retiree or spouse is eligible for Medicare. If applicable, a cash subsidy for the monthly medical premium continues up to a cap of \$160 for a spouse until age 65 is attained. Surviving spouses are also eligible for this benefit. The Plan and its contribution requirements are established by Memoranda of Understanding with the applicable employee bargaining units and may be amended by agreement between the Water Authority and the bargaining units.

Employees who retire directly from the Water Authority at age 55 with five years of service are eligible to continue medical coverage as a participant with active employees at a blended premium rate until eligible for Medicare at age 65 as an implied subsidy. A separate financial report is not prepared for the Plan.

Funding Policy

The required contribution is based on projected pay-as-you-go financing requirements. For the fiscal years ended June 30, 2010 and 2009, the Water Authority's cash contributions were \$72,133 and \$59,268 in current premiums which covered 27 and 30 retirees or their spouses, respectively. The implied subsidy was provided to 33 and 35 retired Water Authority employees or spouses at June 30, 2010 and 2009, respectively.

Annual OPEB Cost and Net OPEB Obligation

The Water Authority's annual OPEB cost is calculated based on the ARC of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The annual OPEB cost and the net OPEB obligation at June 30 is as follows:

	<u>2010</u>	<u>2009</u>
Annual required contribution	\$ 446,000	\$ 323,000
Interest on net OPEB obligation	18,000	9,000
Adjustment to annual required contribution	-	-
Amortization of net OPEB obligation	<u>(28,000)</u>	<u>(8,000)</u>
Annual OPEB cost	436,000	324,000
Contributions made	<u>(157,000)</u>	<u>(139,000)</u>
Increase in net OPEB obligation	279,000	185,000
Net OPEB obligation, beginning of year	<u>364,000</u>	<u>179,000</u>
Net OPEB obligation, end of year	<u>\$ 643,000</u>	<u>\$ 364,000</u>

12. Other Post-Employment Benefits (OPEB), (continued)

Annual OPEB Cost and Net OPEB Obligation, (continued)

The Water Authority's annual OPEB cost, the annual OPEB cost contributed to the Plan, and the net obligation for the fiscal year ended June 30, 2010 and the two preceding fiscal years were as follows:

<u>Three-Year Trend Information</u>			
<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/08	\$ 313,000	\$ 134,000	\$ 179,000
6/30/09	324,000	139,000	364,000
6/30/10	436,000	157,000	643,000

Funded Status and Funding Progress

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress found below presents multi-year trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

<u>Type of Valuation</u>	<u>Actuarial Valuation Date</u>	<u>Actuarial Accrued Liability</u>	<u>Value of Assets</u>	<u>Unfunded Liability</u>	<u>Funded Status</u>	<u>Annual Covered Payroll</u>	<u>UAAL as a % of Payroll</u>	<u>Interest Rate</u>	<u>Aggregate Payroll Growth</u>
Actual	1/1/2007	\$2,316,000	\$ -	\$2,316,000	0.00%	\$22,985,000	10.08%	5.00%	3.25%
Actual	1/1/2009	2,997,000	-	2,997,000	0.00%	23,732,000	12.63%	5.00%	3.25%

Note: Based on the most current information available.

12. Other Post-Employment Benefits (OPEB), (continued)

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2009 actuarial valuation, the Entry Age Normal actuarial cost method was used. The actuarial assumptions included (a) a five percent investment rate of return, net of administrative expenses, (b) a three percent general inflation rate, and (c) annual healthcare cost trend rates as follows: (i) HMO 9.1 percent, (ii) PPO 9.8 percent, and (iii) reduced by increments to an ultimate rate of 4.5 percent after ten years, and a payroll increase rate of 3.25 percent. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a 30-year period. The UAAL is being amortized as a level percent of payroll over 30 years on a closed basis effective June 30, 2007. The remaining amortization period at June 30, 2010 was 27 years. The number of active plan participants was 272.

13. Deferred Compensation Plans & Defined Contribution Plans

The Water Authority has adopted deferred compensation plans and defined contribution plans (the Plans) in accordance with Sections 457(f) and 401(a), respectively, of the Internal Revenue Code. Generally, all eligible employees may defer receipt of a portion of their salary until future years. The employees are not liable for income taxes on amounts deferred until the funds are withdrawn. At June 30, 2010 and 2009 assets of the Plans totaled \$22,999,765 and \$20,411,340 respectively.

14. Insurance

The Water Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Water Authority is a participant in the Special District Risk Management Authority (SDRMA) pooled insurance program and obtains coverage for general liability, errors and omissions, employment practices liability, auto, property, boiler and machinery, and crime and fidelity coverage through the program. SDRMA liability coverage is \$45.0 million per occurrence with a \$50,000 deductible per occurrence. Property coverage is provided with a \$1.0 billion per occurrence and aggregate coverage limit and a sub-limit of \$100.0 million per occurrence for boiler and machinery coverage. Property and boiler and machinery coverage have a \$25,000 deductible per occurrence.

Liberty Mutual, formerly Wausau Insurance, provides workers' compensation coverage per California statutory limits with \$1.0 million per occurrence employer's liability coverage. There is no deductible per occurrence.

The amount of claims settlements did not exceed insurance coverage for the past three years for all coverage types, individually and collectively.

In 1999, the Water Authority entered into an Owner Controlled Insurance Program (OCIP) to provide workers' compensation and general liability insurance to the contractors, and professional liability, pollution liability, and builders risk for the Emergency Storage Program, the Water Authority's long-term capital plan to increase water storage. In fiscal year 2009, the Water Authority obtained an extension of the OCIP at a cost of \$15.0 million to cover the San Vicente Dam raise through fiscal year 2013. The OCIP also maintains a loss deduct account that is adjusted annually based upon loss experience and is capped at \$9.1 million. Payments to the loss account are adjusted annually based on loss experience. The general liability deductible is \$250,000 per occurrence. The primary policy coverage limit is \$2.0 million per occurrence and \$4.0 million in aggregate with excess liability coverage to \$100.0 million aggregate and total coverage limit. The workers' compensation program provides full statutory coverage with a \$250,000 deductible for each occurrence. The builders risk insurance has a variable deductible depending on the construction type and has a \$50.0 million per occurrence maximum coverage limit.

15. Jointly Governed Organization

The Water Authority's payment of specific environmental mitigation costs are being made to the QSA JPA, which reviews and approves actual expenditures for required mitigation and environmental costs. The QSA JPA is administered by the Water Authority and is made up of the Water Authority, IID, CVWD, and the State of California's Department of Fish and Game. The QSA JPA board is comprised of one member from each participating entity.

16. Commitments and Contingencies

(a) Construction Projects

At June 30, 2010, the Water Authority had material commitments under construction contracts as follows:

<u>Project Name</u>	
Emergency Storage Projects (ESP) San Vicente Pipeline & Interconnect	\$ 8,500,000
Olivehain-Hodges Pumped Storage	7,050,000
Mission Trails Tunnel	1,000,000
San Vicente Dam Raise (Foundation Excavation)	2,176,000
San Vicente Dam Raise (Roller-Compacted Concrete Dam & Facilities)	130,424,000
ESP San Vicente Pumping Facilities	1,520,000
Total	\$ 150,670,000

(b) Other Commitments

A "Base Contract Price Dispute Settlement Agreement" between IID and the Water Authority was entered into as of December 21, 2009. Previously, IID and the Water Authority had executed an April 29, 1998 agreement for the transfer of conserved water, and subsequent disagreements arose concerning the meaning, purpose and implementation of the base contract price formula for calendar years 2008 and 2009. Pursuant to the 1998 Transfer Agreement, disputes were to be resolved by procedures that included consensual settlement agreements and binding arbitration decisions. Prior to the commencement of arbitration, IID and the Water Authority agreed to settle the dispute and reached a compromise resolving the formula dispute as reflected in the 2009 settlement agreement, which became formally incorporated into the original 1998 Transfer Agreement as an amendment. The amendment included additional definitions and price modifications.

In December 2009 the Water Authority paid IID \$6.0 million in partial satisfaction of the terms of the settlement agreement which represented the additional amount owed to IID for calendar years 2008 and 2009. A final settlement payment to IID for \$50.0 million was due on October 1, 2010 per the amendment which stipulates that it is to be used for the exclusive purpose of paying for capital expenses.

(c) Litigation

The Water Authority is subject to lawsuits and claims which arise out of the normal course of business. In the opinion of management, based upon the opinion of legal counsel, the disposition of such actions of which it is aware will not have a material effect on the financial position, results of operations, or liquidity of the Water Authority.

Appendix B
Form of Opinion of Bond Counsel

On June 29, 2011 the Water Authority received an opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, in the following form:

Board of Directors
San Diego County Water Authority
San Diego, California

San Diego County Water Authority
Commercial Paper Notes, Series 4
(Final Opinion)

Ladies and Gentleman:

We have acted as bond counsel to the San Diego County Water Authority (the “Issuer”) in connection with authorization of issuance of up to \$100,000,000 aggregate principal amount (at any time Outstanding) of commercial paper notes by the Issuer, pursuant to and by authority of the provisions of Section 8.2 of the County Water Authority Act, Resolution No. 89-21 adopted by the Board of Directors of the Issuer on May 11, 1989, entitled “A Resolution of the Board of Directors of the San Diego County Water Authority Providing for the Allocation of Water System Revenues and Establishing Covenants to Secure the Payment of Obligations Payable from Net Water Revenues”, as amended (the “General Resolution”), and an Issuing and Paying Agent Agreement (Series 4), dated as of June 1, 2011 (the “Issuing and Paying Agent Agreement”), between the Issuer and Deutsche Bank Trust Company Americas (the “Issuing and Paying Agent”), and designated San Diego County Water Authority Commercial Paper Notes, Series 4 (the “Notes”). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the General Resolution.

In such connection, we have reviewed the General Resolution, the Issuing and Paying Agreement, the Tax Certificate of the Issuer, dated the date hereto (the “Tax Certificate”), certificates of the Issuer, the Issuing and Paying Agent and others, opinions of counsel to the Issuer and the Issuing and Paying Agent 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 and before or after the Notes are issued. 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. 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 Issuer). We have assumed, without undertaking to verify, the accuracy (as of the date hereof and as of the date of issuance from time to time of the Notes) of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinion, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the General Resolution, the Issuing and Paying Agent Agreement and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Notes to be included in gross income for federal income tax purposes, possibly retroactive to the date on which the first Notes were issued. We call attention to the fact that the rights and obligations under the Notes, the General Resolution, the Issuing and Paying Agent Agreement 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 authorities 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. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Offering Memorandum or other offering material relating to the Notes and express no opinion with respect thereto.

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

1. The General Resolution has been duly adopted by the Board of Directors of the Issuer and is in full force and effect, and the Issuing and Paying Agent Agreement has been duly executed and delivered by, and constitutes a valid and binding obligation of, the Issuer.

2. The Notes, when duly issued in the form authorized by and otherwise in compliance with the Issuing and Paying Agent Agreement, executed by a duly authorized official of the Issuer and authenticated by the Issuing and Paying Agent against payment therefor, will constitute valid and binding limited obligations of the Issuer, payable solely from Net Water Revenues, and neither the full faith and credit nor the taxing power of the Issuer, the State of California or any of its political subdivisions is pledged for the payment thereof.

3. Interest on the Notes, when issued in accordance with the Issuing and Paying Agent Agreement and the Tax Certificate, will be 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. The amount treated as interest on the Notes and excluded from gross income will depend upon the taxpayer's elective

under Internal Revenue Service Notice 94-84. Interest on the Notes is not a specific preference item for purposes of federal individual or corporate alternative minimum taxes, although we observe that interest on the Notes is included in adjusted current earnings in 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 Notes.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

Appendix C
Annual Statement of Investment Policy
Calendar Year 2011

INTRODUCTION

The purpose of this document is to identify various policies and procedures that enhance opportunities for a prudent and systematic investment policy and to organize and formalize investment related activities. The ultimate goal is to enhance the economic status of the Water Authority while protecting its funds.

The Board of Directors and, upon formal delegation, the Treasurer for the San Diego County Water Authority, duly authorized to invest Water Authority monies by California Government Code, are trustees of Water Authority funds and therefore fiduciaries subject to the prudent investor standard.

SCOPE

It is intended that this policy cover all funds and investment activities under the direct authority of the San Diego County Water Authority, except for the employee's retirement and deferred compensation funds. For investment purposes, the Water Authority manages the Operating Fund, Rate Stabilization Fund, Pay-As-You-Go Fund, Equipment Replacement Fund and Stored Water Fund together as the Pooled Operating Fund. The funds under the direct authority of the San Diego County Water Authority are accounted for in the Comprehensive Annual Financial Report and include:

Operating Fund – Holds the Water Authority's working capital and emergency operating reserve.

Rate Stabilization Fund – Established to mitigate future water rate increases.

Pay-As-You-Go Fund (PAYGO) – Funds are dedicated for construction outlays and debt service.

Equipment Replacement Fund – Used to purchase minor capital equipment such as computer systems, vehicles, etc.

Stored Water Fund – Used to purchase water to fill Water Authority reservoirs.

Construction (CIP) Fund – Holds the proceeds of long-term debt and commercial paper to be expended for construction.

Debt Service Reserve Fund – Holds the required legal reserve for Water Authority debt issues.

OBJECTIVES

The investment policies and practices of the Board of Directors and the Treasurer for the San Diego County Water Authority are based upon limitations placed on it by governing legislative bodies. These policies have three primary goals:

1. To assure compliance with all Federal, State and Local laws governing the investment of monies under the control of the Treasurer.
2. To protect the principal monies entrusted to this organization.
3. To generate the maximum amount of investment income within the parameters of this Annual Statement of Investment Policy.

These goals are enhanced by the following objectives in order of importance.

A. Safety: It is the primary duty and responsibility of the Treasurer to protect, preserve and maintain cash and investments placed in his/her trust. Each investment transaction shall seek to ensure that capital losses are avoided, whether from institution default, broker-dealer default, or erosion of market value of securities. The Treasurer shall evaluate or cause to have evaluated each potential investment, seeking both quality in issuer and in underlying security or collateral. Diversification of the portfolio will be used in order to reduce exposure to principal loss.

B. Liquidity: An adequate percentage of the portfolio will be maintained in liquid short-term securities which can be converted to cash if necessary to meet disbursement requirements. Since all cash requirements cannot be anticipated, investment in securities with active secondary markets will be utilized. These securities will have a low sensitivity to market risk.

C. Yield: Yield should become a consideration only after the basic requirements of safety and liquidity have been met.

D. Public Trust: All participants in the investment process shall act as custodians of the public trust. Investment officials shall recognize that the investment portfolio is subject to public review and evaluation. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust. In a diversified portfolio it must be recognized that occasional measured losses are inevitable, and must be considered within the context of the overall portfolio's investment return, provided that adequate diversification has been implemented.

PRUDENT INVESTOR STANDARD

The Board of Directors and Treasurer adhere to the guidance provided by the "prudent investor standard", California Government Code (Section 53600.3), which obligates a fiduciary to insure that "When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not

limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law.”

DELEGATION OF AUTHORITY

The investment, per this policy, of Water Authority idle monies is annually delegated to the Treasurer by the Board of Directors who shall thereafter assume full responsibility for those transactions until the delegation of authority is revoked or expires. The Treasurer may delegate the day-to-day operations of investing to his/her designee(s), but not the responsibility for the overall investment program. A memorandum will be forwarded to the General Manager indicating the individual who is acting on the behalf of the Treasurer which details the period of time the designee will be responsible for the investment function. All transactions will be reviewed by the Treasurer on a regular basis to assure compliance with this Annual Statement of Investment Policy.

ETHICS AND CONFLICT OF INTEREST

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officers shall disclose any material financial interest in financial institutions that conduct business with this jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the Water Authority’s portfolio. Employees and officers shall subordinate their personal investment transactions to those of the Water Authority, particularly with regard to the timing of purchases and sales, and shall avoid transactions that might impair public confidence. All officers and employees involved in the investment of public funds are required to comply with the Water Authority’s Conflict of Interest Code.

AUTHORIZED INVESTMENT INSTRUMENTS – POOLED OPERATING FUND

The Water Authority is governed by the California Government Code, Sections 53600 et seq. Within the context of these limitations, the following investments are authorized:

Local Agency Investment Fund (LAIF): The Water Authority has investigated and may invest in the Local Agency Investment Fund established by the State Treasurer for the benefit of local agencies (Government Code Section 16429.1(b)). In order to ensure that LAIF is purchasing securities that comply with the Government Code, the monthly LAIF report shall be reviewed by the Treasurer. The fund must have twenty-

four hour liquidity. The maximum permitted investment will be governed by State Law (currently \$50 million).

Bankers' Acceptances: The Water Authority may invest in prime self-liquidating bankers' acceptances (Government Code Section 53601(g)) limited to banks rated a minimum of "A" by Moody's Investors Service and Standard & Poor's. The maximum investment maturity will be restricted to 180 days. Maximum portfolio exposure will be limited to 20 percent and single-issuer holdings to no more than 5 percent per issuer. At the discretion of the Treasurer, exceptions will be allowed to the single-issuer maximum of 5 percent, when in his/her judgment, the issuer(s) have a "AAA" credit rating from Moody's Investors Service and Standard & Poor's, and the investment has remaining days to maturity of 90 days or less.

Treasury Securities: The Water Authority may invest in United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest (Government Code Section 53601(b)). The purchase of zero coupon, or strips, is not permitted. Because these investments are the safest possible, there is no maximum portfolio limit. Maximum investment maturities will be restricted to five years.

Repurchase Agreements: The Water Authority may invest (Government Code Section 53601(j)) in overnight and term repurchase agreements with primary dealers of the Federal Reserve Bank of New York rated "A" or better by Moody's Investors Service or Standard & Poor's with which the Water Authority has entered into a master repurchase agreement. This agreement will be modeled after the Public Securities Association's master repurchase agreement.

All collateral used to secure this type of transaction is to be delivered to a third party prior to release of funds. The third party will have an account in the name of the San Diego County Water Authority. The market value of securities used as collateral for repurchase agreements shall be monitored on a daily basis by the Treasurer and will not be permitted to fall below 102 percent of the value of the repurchase agreement. Collateral shall not include strips, zero-coupon instruments or instruments with maturities in excess of five years. The right of substitution will be granted, provided that permissible collateral is maintained.

In order to conform with provisions of the Federal Bankruptcy Code which provides for the liquidation of securities held as collateral for repurchase agreements, the only securities acceptable as collateral shall be securities that are direct obligations of and guaranteed by the U.S. Government and Agency securities as permitted under this policy. The Water Authority will maintain a first perfected security interest in the securities subject to the repurchase agreement and shall have a contractual right to liquidation of purchased securities upon the bankruptcy, insolvency or other default of the counterparty. Maximum portfolio exposure will be limited to 20 percent and maturities that do not exceed one year.

Reverse Repurchase Agreements: The Water Authority may enter (Government Code Section 53601(j)) into reverse repurchase agreements only “with primary dealers of the Federal Reserve Bank of New York or with a nationally or state-chartered bank that has or has had a significant banking relationship with a local agency”, and when an unanticipated cash outflow can be met more advantageously by agreeing to a reverse repurchase agreement rather than selling securities outright. In this situation, the reverse shall not exceed 92 days, and shall be matched to a known cash inflow of sufficient size to repay the principal and interest of the reverse repurchase agreement.

The Water Authority may also enter into reverse repurchase agreements when proceeds obtained through the reverse can be reinvested at a higher rate. The spread and reverse must be reviewed by the Treasurer prior to the transaction taking place. Reverse repurchase agreements entered into may not exceed a maximum maturity of 92 days unless the minimum spread between the rate on the investment and cost of funds is guaranteed in writing, in which case the maximum maturity is limited to one year. In all cases, the transaction must be matched as to maturity and dollars invested with its corresponding reinvestment.

In both situations a master repurchase agreement modeled after the Public Securities Association is required prior to the transaction taking place. In all cases, the security being reversed must have been held in the portfolio for a minimum of 30 days. Restrictions placed on repurchase agreements also apply to reverse repurchase agreements. Maximum portfolio exposure will be limited to 20 percent of the total portfolio value excluding the proceeds of reverses. This transaction requires written approval of the Treasurer.

Securities lending is not considered a reverse repurchase transaction and is not authorized under this section.

Certificates of Deposit: The Water Authority may invest in certificates of deposits issued by a state or national bank, savings association or federal association, a state or federal credit union located in California (Government Code Section 53630 et seq). A written depository contract is required with all institutions that hold Water Authority deposits. The Treasurer may waive collateral requirements for the portion of any deposit insured pursuant to federal law. Securities placed in a collateral pool must provide coverage for at least 110 percent of all deposits that are placed in the institution. Acceptable pooled collateral is governed by California Government Code Section 53651. Real estate mortgages are not considered acceptable collateral by the Water Authority, even though they are permitted in Government Code Section 53651(m). All banks are required to provide the Water Authority with a regular statement of pooled collateral. This report will state that they are meeting the 110 percent collateral rule (Government Code Section 53652(a)), a listing of all collateral with location and market value, plus an accountability of the total amount of deposits secured by the pool.

No bank shall receive Water Authority funds that has a Moody’s Investors Service rating or Standard & Poor’s rating less than “A”; however, deposits of up to the federal deposit insurance limit are allowable in any institution that insures its deposits

pursuant to federal law, regardless of Moody's Investors Service or Standard & Poor's ratings. The maximum deposited in any one institution without collateral shall not exceed the amount covered by federal deposit insurance.

All banks accepting Water Authority deposits are required to provide annual information regarding compliance to the Community Reinvestment Act. Banks are required to maintain a minimum rating of "satisfactory" as defined under the Financial Institutions Recovery Reform and Enforcement Act.

As per Section 53638 of the California Government Code, any deposit shall not exceed the total paid-up capital and surplus of any depository bank, nor shall the deposit exceed the total net worth of any institution.

Maximum portfolio exposure is limited to 15 percent. Maximum investment maturity is restricted to not longer than December 31, 2013.

Placement Service Certificates of Deposit: The Water Authority may invest in certificates of deposit placed with a private sector entity that assists in the placement of certificates of deposit with eligible financial institutions located in the United States (Government Code Section 53601.8). The full amount of the principal and the interest that may be accrued during the maximum term of each certificate of deposit shall at all times be insured by federal deposit insurance. The combined maximum portfolio exposure to Placement Service Certificates of Deposit and Negotiable Certificates of Deposit is limited to 15 percent. Maximum investment maturity will be restricted to not longer than December 31, 2013.

Negotiable Certificates of Deposit: The Water Authority may invest in negotiable certificates of deposit issued by a nationally or state-chartered bank or a state or federal association or by a state-licensed branch of a foreign bank (Government Code Section 53601(i)) with a minimum rating of "AA" as assigned by Moody's Investors Service and Standard & Poor's.

As per Section 53638 of the California Government Code, any deposit shall not exceed the total paid-up capital and surplus of any depository bank, nor shall the deposit exceed the total net worth of any institution.

The combined maximum portfolio exposure to Negotiable Certificates of Deposit and Placement Service Certificates of Deposit is limited to 15 percent. Maximum investment maturity is restricted to not longer than December 31, 2013.

Commercial Paper: Investment is limited to the highest grade of stand alone or enhanced ("prime") commercial paper (Government Code Section 53601(h)) as rated by Moody's Investors Service, Standard & Poor's, or Fitch Ratings ("A1/P1/F1"), issued only by general corporations that are organized and operating within the United States and having total assets in excess of \$500 million. The general corporation must also have an "A" rating or higher for the issuers debentures, other than commercial paper, as provided by Moody's Investors Service, Standard & Poor's, or Fitch Ratings. Purchases shall not exceed ten percent of the outstanding paper of the issuing general corporation.

Maximum investment maturity will be restricted to 270 days. Maximum portfolio exposure is limited to 25 percent and single-issuer holdings to no more than 5 percent per issuer. At the discretion of the Treasurer, exceptions will be allowed to the single-issuer maximum of 5 percent, when in his/her judgment, the issuer(s) have a “AAA” credit rating from Moody’s Investors Service, Standard & Poor’s, and Fitch Ratings and the investment has remaining days to maturity of 90 days or less.

Medium Term Notes: The Water Authority may invest in corporate and depository institution debt securities issued by corporations organized and operating within the United State or by depository institutions licensed by the United States or any state and operating within the United States (Government Code Section 53601(k)). Investment is limited to “AA-” rated or higher notes, as rated by Moody’s Investors Service and Standard & Poor’s. Permissible types of notes include fixed rate and variable rate. Maximum investment maturity is restricted to three years for “AA-” and “AA” rated notes and five years for “AAA” rated notes. Maximum portfolio exposure is limited to 30 percent and single-issuer holdings to no more than 5 percent per issuer. At the discretion of the Treasurer, exceptions will be allowed to the single-issuer maximum of 5 percent, when in his/her judgment, the issuer(s) have a “AAA” credit rating from Moody’s Investors Service and Standard & Poor’s, and the investment has remaining days to maturity of 90 days or less.

Municipal Securities: The Water Authority may invest in: (i) Registered treasury notes or bonds issued by any of the 50 United States, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any state (Government Code Section 53601(c)(d)); and (ii) Bonds, notes, warrants, or other evidence of debt issued by a local agency or municipality located within California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency (Government Code Section 53601(a)(e)). Securities must have a minimum rating of “A” as rated by Moody’s Investors Service and Standard and Poor’s. Maximum maturity is limited to 5 years. Maximum portfolio exposure is limited to 20 percent.

Agencies: The Water Authority may invest in federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises (Government Code Section 53601(f)). Permissible types of securities include discount, coupon and variable rate security issues. Callable securities are limited to a minimum of one-time call only, with a maximum allocation of 20 percent of the portfolio. Maximum maturity is limited to 5 years. Maximum portfolio exposure is limited to 85 percent.

Money Market Funds: Investment is limited to funds authorized under Government Code Section 53601(l)(2) that have a minimum asset size of \$500 million. Composition of the fund is limited to investments that are authorized by this Annual Statement of Investment Policy. Funds must have the highest rating by two of the three largest nationally recognized statistical rating organizations, or have an investment

adviser registered with the Securities and Exchange Commission with not less than five years' experience investing in the securities and obligations authorized by this investment policy. Any fund shares purchased will not include any type of commission. Maximum portfolio exposure is limited to 15 percent.

Local Government Investment Pools: The Water Authority may invest in local government investment pools created by a joint powers authority authorized under Government Code Section 53601(p). Pools must have the highest rating by at least one of the three largest nationally recognized statistical rating organizations. The pool must have twenty-four hour liquidity. Maximum portfolio exposure is limited to 25 percent.

AUTHORIZED INVESTMENT INSTRUMENTS - BOND PROCEEDS AND DEBT SERVICE RESERVE FUNDS

All investment types listed above are authorized investments for bond proceeds and debt service reserve funds with the addition of the following:

Collateralized Guaranteed Investment Contracts (GICs)/Full Flex Repurchase Agreements: Investment of funds in GICs is permitted, as per Section 5922 of the Government Code, when collateralized by U.S. Government guaranteed and direct obligation securities. Collateral must be held by a third party institution, and must be marked to market on a weekly basis to a minimum of the value of the outstanding balance of the contract. The maximum maturity date on a GIC is limited to the final maturity date of the bonds being issued.

Initially Uncollateralized Guaranteed Investment Contracts (GICs): Investment of funds in GICs which are not initially collateralized is permitted, as per Section 5922 of the Government Code, only if (a) the term of the GIC does not exceed three (3) years, (b) the counterparty to the GIC is rated in the highest long-term rating category by both Moody's Investors Service and Standard & Poor's (or whose payment obligations under such GIC are insured or guaranteed by an entity the unsecured obligations of which are so rated), and (c) the GIC requires that it be collateralized as described above in the event the counterparty's rating is downgraded below the highest long-term rating category by either Moody's Investors Service or Standard & Poor's.

Local Agency Investment Fund (LAIF): The Water Authority may also invest bond proceeds in the Local Agency Investment Fund (Government Code Section 16429.1(d)). There is a \$175M limit on the amount of bond proceeds that may be deposited into the fund. Liquidity for bond proceeds, per fund regulations, is thirty calendar day increments from the date of the initial deposit. Bond proceeds deposited in LAIF should be managed to include a 90-day review by the Treasurer to insure safety, as well as probable income.

In the event that a conflict arises between the bond covenants and this Annual Statement of Investment Policy, the following will guide the (re)investment of bond proceeds: when the Annual Statement of Investment Policy is more conservative than the bond covenants, the Annual Statement of Investment Policy will prevail; if the bond

covenants are more conservative than the Annual Statement of Investment Policy, the bond covenants will prevail. All future debt transaction reinvestment guidelines will incorporate the current Annual Statement of Investment Policy into the bond covenants.

The Board of Directors has granted the Treasurer the authority to invest debt service reserve funds in U.S. Treasury, federal agency, and municipal securities with maturities exceeding 5 years if it is considered to be in the best interest of the Water Authority and if the maturity of such investments does not exceed the expected use of funds.

PORTFOLIO LIMITATIONS

It is the Water Authority's goal to maintain a minimum of 50 percent of the Water Authority portfolio in Treasury Bills or Notes; however, based on market conditions a combination of 50 percent Agencies and Treasury Bills or Notes will satisfy this requirement. At no time will less than 15 percent of the portfolio be in Treasury Bills or Notes. The balance of the portfolio may be invested in any of the other permissible investments within the guidelines previously established.

The total dollar amount of bond proceeds and debt service reserve funds invested are to be excluded from the total used to calculate percentages for investment types.

The weighted average days to maturity of the total portfolio shall not exceed 730 days (two years) to maturity.

In the event that the percentage limits attributable to each security type are violated due to a temporary imbalance in the portfolio, the Treasurer will make a determination as to the appropriate course of action. The appropriate course of action may be to liquidate securities to rebalance the portfolio or to hold the securities to maturity in order to avoid a market loss. Portfolio percentages are in place to ensure diversification of the investment portfolio and as such a small temporary imbalance would not violate this basic tenet. When a portfolio percentage is exceeded, the Treasurer will report the violation in the Treasurer's Report at the next regularly scheduled Administrative and Finance Committee meeting of the Board, with detail of the strategy determined to address the imbalance, for Board ratification.

In the event that an investment originally purchased within policy guidelines is downgraded by any one of the credit rating agencies, the Treasurer shall report it at the next regularly scheduled Administrative and Finance Committee meeting of the Board. The course of action to be followed will then be decided on a case-by-case basis, considering such factors as the reason for the downgrade, prognosis for recovery or further rating downgrades, and the market price of the security.

INELIGIBLE INVESTMENTS

Investments not described herein, including, but not limited to common stocks, futures and the writing of options are prohibited from use in this portfolio. The use of short positions is also prohibited.

DERIVATIVES

A derivative is defined as a financial instrument that derives its cash flows, and therefore its value, by reference to an underlying instrument, index or reference rate. The purchase of yield curve notes, interest only, principal only, range notes, and inverse floaters are prohibited (this list is not intended to cover all types of securities and is presented as an example of the types of securities that should be avoided). Callable bonds, step-up bonds, and floating rate securities (with a positive spread) are permitted investments. No security will be purchased that could result in a zero interest accrual if held to maturity.

SWAPS

A swap is a shift of assets from one instrument to another and may be done for a variety of reasons, such as to increase yield, lengthen or shorten maturities, or to increase investment quality. In no instance shall a swap be used for speculative purposes. Any such swap shall be simultaneous (same day execution of sale and purchase), and requires the written approval of the Treasurer.

INTERNAL CONTROLS

A system of internal controls has been established and documented in writing in the Water Authority's Financial Services Policies and Procedures Manual. The controls shall be designed to prevent losses of public funds arising from fraud, employee error, and misrepresentation of third parties, unanticipated changes in financial markets or imprudent action by employees and officers of the Water Authority. Controls deemed most important include: control of collusion, separation of duties and administrative controls, separating transaction authority from accounting and record keeping, custodial safekeeping, clear delegation of authority, management review and approval of investment transactions, specific limitations regarding securities losses and remedial action, written confirmation of telephone transactions, minimizing the number of authorized Investment Officials, documentation of transactions and strategies, and code of ethic standards. The Treasurer has established an annual process of independent review by an external audit firm. This review provides assurance of strong internal controls by reviewing compliance with previously established policies and procedures.

REPORTING

The Treasurer will submit a monthly investment report to the Board of Directors, the General Manager's office, and the internal auditor. This report will include: a list of portfolio transactions, type of investment, issuer, date of maturity, amount of deposit/par amount, current market value of all securities (with the source of the market valuation), rate of interest, statement that there are or are not sufficient funds to meet the next 6 month's obligations and a statement indicating compliance or noncompliance with this Annual Statement of Investment Policy. Additional items listed will also include average weighted yield, average days to maturity, accrued interest earned during the period and

fiscal year to date, percent distribution to each type of investment and any funds under management by contracted parties, including lending programs.

QUALIFIED BANKS AND SECURITIES DEALERS

A competitive bid process, when practical, will be used to place all investment purchases and sale transactions. The Water Authority shall conduct business only with banks, savings and loans, and registered investment securities dealers. The Water Authority's staff will investigate all institutions that wish to conduct business with the Water Authority. All institutions must sign the appropriate Information Request Form, and agree to abide by the conditions set forth in the Water Authority's Annual Statement of Investment Policy. A list will be maintained by the cash management staff of approved institutions and securities broker/dealers. This will be done annually by having the financial institutions complete and return the Broker Dealer Information Request Form, and an audited financial statement within 90 days of the institution's fiscal year-end. Previous Board approved substitute certification language may be offered to primary dealers of the Federal Reserve at the discretion of the Treasurer. In the event the substitute language is not accepted by the primary dealer, the Treasurer may return to the Water Authority's Board for approval of alternative language proposed by the primary dealer.

RISK TOLERANCE

The Water Authority recognizes that investment risks can result from issuer defaults, market price changes or various technical complications leading to temporary illiquidity. Portfolio diversification is employed as a way to control risk. The Treasurer is expected to display prudence in the selection of securities, as a way to minimize default risk. No individual investment transaction shall be undertaken which jeopardizes the total capital position of the overall portfolio. The Treasurer shall periodically establish guidelines and strategies to control risks of default, market price changes and illiquidity.

Risk will also be managed by subscribing to a portfolio management philosophy that helps to control market and interest rate risk by investing to a shorter term. This philosophy also prohibits trading losses (for speculative purposes) unless there is a sudden need for liquidity and the need cannot be satisfied on a more cost effective basis.

PERFORMANCE BENCHMARK

Controlling and managing risk is the foremost portfolio management objective. The Water Authority strives to maintain an efficient portfolio by providing for the lowest level of risk for a given level of return. This acceptable level of return has been quantified as a return that is consistent with the 1-Year U.S. Treasury constant maturity. Any level of return above this measure should be reviewed in order to ensure that such investments meet the criteria previously specified.

SAFEKEEPING AND CUSTODY

To protect against potential losses caused by the collapse of security dealer(s), all book-entry securities owned by the Water Authority, including repurchase agreement collateral, shall be kept in safekeeping with “perfected interest” by a third party bank trust department, acting as agent for the Water Authority under the terms of a custody agreement executed by the bank and by the Water Authority. All securities will be received and delivered using standard delivery-versus-payment procedures. The only exception to the foregoing shall be certificates of deposit and investments in: (i) LAIF; (ii) local government investment pools; and (iii) money market funds, since the purchased securities are not deliverable. A record of these investments shall be held by the Treasurer.

DIVERSIFICATION

The investment portfolio will be diversified by security type, institution and maturity date to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institutions.

STATEMENT OF INVESTMENT POLICY

This Annual Statement of Investment Policy shall be reviewed and submitted annually to the Board of Directors in order to incorporate any changes necessary to ensure consistency and its relevance to current law, and financial and economic trends. This Annual Statement of Investment Policy shall be reviewed at a public meeting and voted on prior to the start of each calendar year.

Appendix D

Information Regarding DTC and the Book-Entry Only System

Neither the Water Authority nor the Issuing and Paying Agent will have any responsibility or obligation to DTC Participants, Indirect Participants or Beneficial Owners with respect to the payments or the providing of notice to DTC Participants, Indirect Participants or Beneficial Owners. Neither the Water Authority nor the Issuing and Paying Agent can give any assurances that DTC, DTC Participants, Indirect Participants or others will distribute payments of principal of and interest on the Commercial Paper Certificates paid to DTC or its nominee, as the registered Holder, or any notices, to the Beneficial Owners, or that they will do so on a timely basis or that DTC will serve and act in the manner described in this Offering Memorandum.

The following information regarding DTC and its book-entry only system has been furnished by DTC for inclusion herein. The Water Authority cannot and does not make any representation as to the accuracy or completeness thereof, or the absence of material adverse changes therein subsequent to the date hereof. Beneficial Owners should confirm the following information with DTC or the Participants, as the case may be.

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Commercial Paper Certificates. The Commercial Paper Certificates will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 4 Note will be issued in the aggregate authorized principal amount of the Series 4 Notes and will be deposited with DTC.

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

and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange City. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of the Series 4 Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 4 Notes on DTC’s records. The ownership interest of each actual purchaser of each Series 4 Notes (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 4 Notes are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 4 Notes, except in the event that use of the book-entry system for the Series 4 Notes is discontinued.

To facilitate subsequent transfers, all Series 4 Notes deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Series 4 Notes 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 Series 4 Notes; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Series 4 Notes are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Series 4 Notes may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 4 Notes, such as tenders, defaults, and proposed amendments to the authorizing documents. For example, Beneficial Owners of the Series 4 Notes may wish to ascertain that the nominee holding the Series 4 Notes 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.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 4 Notes unless authorized by a Direct Participant in accordance with DTC’s MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy

to the Water Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 4 Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal and interest with respect to the Series 4 Notes 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 Water Authority or the Issuing and Paying Agent on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Issuing and Paying Agent or the Water Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest with respect to the Series 4 Notes to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Water Authority or the Issuing and Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 4 Notes at any time by giving reasonable notice to the Water Authority or the Issuing and Paying Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Series 4 Note certificates are required to be printed and delivered, as described in the Trust Agreement.

The Water Authority may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, Series 4 Note certificates will be printed and delivered to DTC as described in the Issuing and Paying Agent Agreement.

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

The foregoing description of the procedures and record-keeping with respect to beneficial ownership interests in the Series 4 Notes, payment of the principal, interest and other payments with respect to the Series 4 Notes to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interests in such Series 4 Notes and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

The Water Authority cannot and does not give any assurances that DTC will distribute to DTC Participants, or that DTC Participants or others will distribute to the Beneficial Owners, payments of principal and interest with respect to the Series 4 Notes paid or any notices or that they will do so on a timely basis or will serve and act in the manner described in this Offering Memorandum. The Water Authority is not responsible or liable for the failure of DTC or any DTC Participant or Indirect Participant to make any payments or give any notice to a Beneficial Owner with respect to the Series 4 Notes or any error or delay relating thereto.

So long as Cede & Co. is the registered owner of the Series 4 Notes, as nominee of DTC, references herein to the Holders or registered holders of the Series 4 Notes, shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the Series 4 Notes.