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## COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal Year Ended June 30, 2010

West Basin Municipal Water District  
Carson, California  
[www.westbasin.org](http://www.westbasin.org)

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal Year Ended June 30, 2010



## WEST BASIN MUNICIPAL WATER DISTRICT CARSON, CALIFORNIA

PREPARED BY:

Finance Department  
Margaret Moggia, CPA  
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Photos on previous page (Left to right): National Water Research Institute presents West Basin with its Recognition of Excellence; Water Education Center Sponsors, West Basin Directors, City of Redondo Beach and Metropolitan Water District dedicate West Basin's new Desalination Demonstration Facility and Water Education Center in Redondo Beach; Conservation Exhibit at West Basin's new Water Education Center.



**WEST BASIN MUNICIPAL WATER DISTRICT**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT, Fiscal Year Ended June 30, 2010**  
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December 20, 2010

TO THE BOARD OF DIRECTORS AND CUSTOMERS OF WEST BASIN MUNICIPAL WATER DISTRICT:

West Basin Municipal Water District (West Basin) staff is pleased to present the Comprehensive Annual Financial Report (CAFR) for the Fiscal Year 2009-2010, which ended June 30, 2010. For the last five years, West Basin has submitted the CAFR to the Government Finance Officers Association (GFOA) to seek the designation of Excellence in Financial Reporting. We will be submitting the CAFR again this year.

The CAFR is intended to provide the Board of Directors, West Basin's customers, the public and interested parties with a broad financial outlook of West Basin. This report is also prepared for the purpose of meeting California law requiring special districts to submit an audited annual or biannual financial report to the State Controller within six months after the end of the fiscal year.

The guidelines set forth by the Governmental Accounting Standards Board (GASB) were followed in the preparation of this report, which was designed to assess West Basin's financial condition and inform the public about West Basin's mission to provide a safe and reliable supply of high quality water to the communities we serve. The disclosed information is fairly presented and West Basin's management accepts full responsibility for the data contained in this report.

Mayer Hoffman McCann P.C. issued an unqualified opinion regarding West Basin's financial statements for the Fiscal Year ended June 30, 2010, included in this report. The Independent Auditor's Report is located at the beginning of the financial section of this report.

Management's Discussion and Analysis (MD&A) immediately follows the Independent Auditor's Report on the basic financial statements and provides a narrative introduction, overview and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

## **OUR MISSION STATEMENT**

*To provide a safe and reliable supply of high quality water to the communities we serve.*

## **BACKGROUND**

West Basin is a special district of the State of California and an innovative public agency that provides drinking and recycled water to its 185-square mile service area (see Service Area Map, next page). West Basin purchases imported water from the Metropolitan Water District of Southern California (MWD) and wholesales the imported water to cities, water agencies, and



private water companies in coastal Los Angeles County. To protect our local groundwater aquifer from seawater intrusion, West Basin provides water for injection into the South Bay's seawater barriers. Consistent with expanding our portfolio of locally produced water to ensure water supply reliability for future residents and businesses, West Basin invests in both water efficiency programs and ocean-water desalination technologies and processes that will reduce our dependence on imported water and help to supplement our local drinking water supply.

## **COMMITMENT STATEMENTS**

West Basin's Board of Directors has dedicated significant time and effort in developing a long-term vision for the agency to meet its commitments to its customers and communities. This was accomplished through the development of a new mission statement and Strategic Business Plan, in addition to surveying our customers. The Strategic Business Plan focuses West Basin projects and programs on the key goals and objectives that will define and measure our success, communicated through our five Commitment Statements:

**Water Reliability:** West Basin is committed to innovative planning and investments to provide water supply reliability and drought protection.

**Water Quality:** West Basin is committed to providing safe, high quality water by meeting current and anticipated water quality requirements.

**Sound Financial and Resource Management:** West Basin is committed to efficient business operations, financial planning, and asset management.

**Customer Service:** West Basin is committed to providing value by understanding and meeting the needs of our customers and the communities we serve.

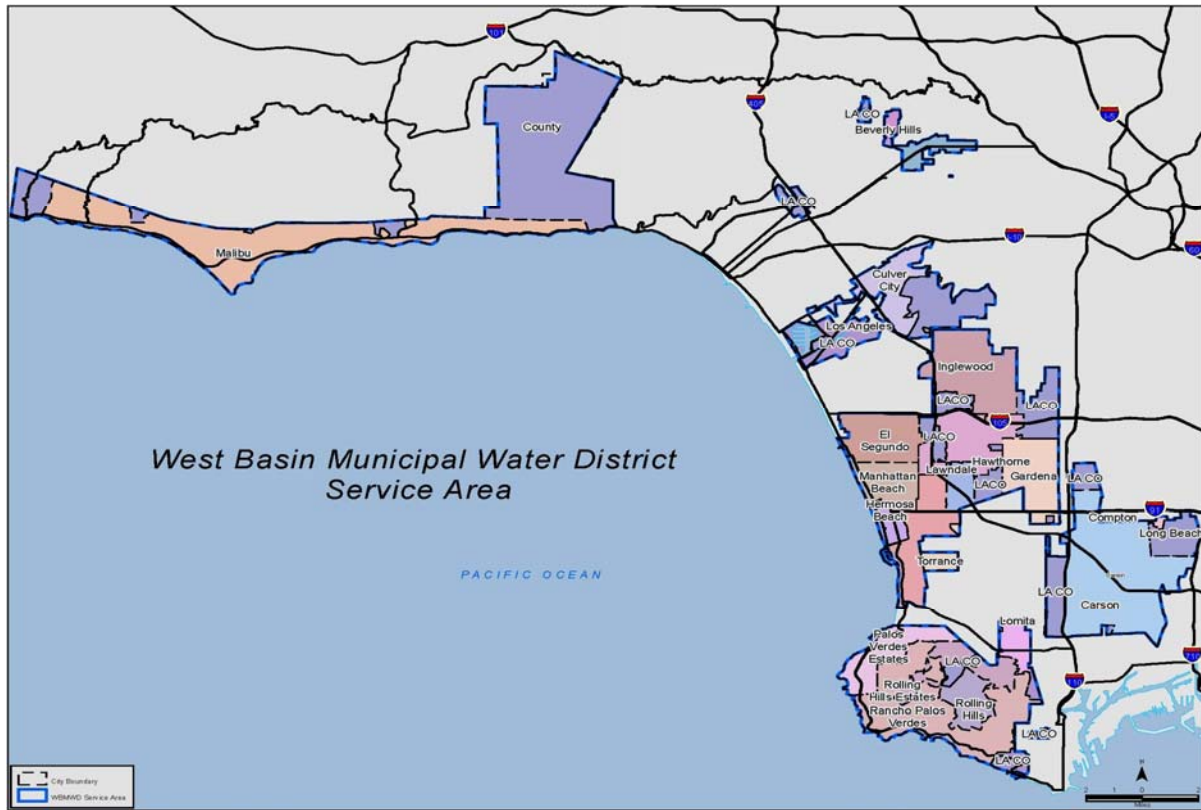
**Environmental Stewardship:** West Basin is committed to sustainable and environmentally friendly business practices.

The Strategic Business Plan provides continuous direction for each year's planning, budgeting, implementation, evaluation and reporting. As staff prepared this year's budget, they focused on achieving the goals and activities described within the plan.

## **WEST BASIN SERVICE AREA**

West Basin serves a diverse population of nearly a million people living and working in 17 cities and parts of unincorporated coastal Los Angeles County. West Basin has a 3:1 resident-to-business ratio and an average median income of \$67,000. The community diversity ranges from approximately \$23,000 in Westmont to approximately \$200,000 in Rolling Hills (Source: 2000 census). Our service area presents unique challenges in meeting a wide variety of needs, from a diversity of residences and sizes of yards to varying types of industrial and commercial enterprises.

Five publicly elected board members govern on West Basin's Board of Directors. Voters in each of the five divisions from Malibu to Palos Verdes, El Segundo to Carson, elect one board member to serve a four-year term. The West Basin Board then appoints two representatives to serve on the 37-member MWD Board of Directors. The two representatives serving on the MWD Board of Directors for Fiscal Year 2009-2010 are Edward C. Little and Gloria D. Gray.



**Division I:**  
**Director Ronald C. (Ron) Smith** Representing Palos Verdes Estates, Rancho Palos Verdes, Rolling Hills Estates, Rolling Hills and Carson



**Division II:**  
**Director Gloria D. Gray** Representing Inglewood, South Ladera Heights, Lennox, Athens, Howard and Ross-Sexton



**Division III:**  
**Director Carol W. Kwan** Representing Hermosa Beach, Lomita, Manhattan Beach, Redondo Beach, and Torrance



**Division IV:**  
**Director Edward C. Little** Representing Culver City, El Segundo, Malibu, North Ladera Heights, Del Aire, Topanga, View Park, West Hollywood, Windsor Hills, and Lennox



**Division V:**  
**Director Donald L. Dear** Representing Gardena, Hawthorne, Lawndale, and El Camino Village



## HISTORY OF WEST BASIN

As early as 1918, the levels of the groundwater basin was dropping so low that salt water from the ocean was seeping into, and contaminating, the groundwater. Lawns in the South Bay were dying, and well water often wasn't drinkable. In the 1940s, studies showed that our groundwater aquifer was being depleted at a much faster rate than it was being recharged. Each year, the aquifer was being over-drafted by millions of gallons.

At that time, one solution was to supply the region with imported water through Metropolitan Water District of Southern California. In 1947, West Basin was formed by the vote of the people to serve as a wholesale agency to distribute water throughout its service area. A year later, West Basin became a member agency of MWD, an agency that imports water from the Colorado River and Northern California, and for almost four decades, West Basin served its communities solely as a water wholesaler. As a result of the extreme drought of the late 1980's and early 1990's, West Basin evolved into an agency that does much more than distributes imported water.

Today, West Basin is focused on water reliability for the region, delivering a diverse supply of water that includes imported, recycled, desalted and conserved sources. West Basin invests in the research and use of new technologies, alternative energy sources, and conservation and outreach programs. Working with teachers and school children, West Basin is educating thousands of young people about water use, supply, local production, and careers in the water industry.

West Basin began investing in the local production of water in the early 1990's by building a water recycling facility that would turn treated wastewater into high-quality recycled water suitable for irrigation, municipal, industrial and commercial uses. The benefits generated by our water recycling facility include more affordable water rates for customers, a reliable, locally-controlled supply of recycled water, saving money and energy by not needing to use higher cost water imported from hundreds of miles away by MWD, reducing wastewater and biosolids going to the ocean and turning waste water into a usable water resource.



Water efficient demonstration garden at Edward C. Little Water Recycling Facility in El Segundo.



Water efficient landscaping at West Basin headquarters in Carson.

The drought of the 1990's also increased awareness about water conservation and led to West Basin's addition of conservation as a new water supply. West Basin currently offers free indoor and outdoor programs for residents and businesses to reduce their consumption of water and maximize water use efficiency. Through the addition of two Water-Efficient Demonstration Gardens - one at the Edward C. Little Water Recycling Facility and another at West Basin's headquarters - West Basin has reduced its own water use and created teaching tools for the community to learn about water-efficient landscaping practices, rain and

runoff capture systems, drought-tolerant plants, permeable paving, and mulch, while reducing its landscaping water use by up to 80%.

West Basin is currently executing a Board adopted Strategic Business Plan (2008), with the goal of building more reliability into our local water supply. Through our Board-adopted WR 2020 Program, we are currently expanding production of locally-produced water by doubling water recycling and conservation and adding ocean-water desalination. Throughout 2009-2010, West Basin was constructing an ocean-water desalination demonstration facility and Water Education Center (both completed in fall 2010).

West Basin continues to invest in staff, operations and programs to maintain high standards within our workforce and reach out to the community even more through conservation outreach, education, community banking, local business opportunities and other programs focused on the needs and talents of our service area.

### **COMMITMENT TO LOCAL RELIABLE SOURCES OF WATER**

West Basin is a recognized leader in the production of recycled water, and our conservation and education programs are fundamental to West Basin's diverse water portfolio. Our water recycling facilities produce more than 30 million gallons of high-quality water every day using various treatment levels and processes. Our water conservation program provides *free* water audits and retrofits commercial kitchens and residential sprinklers and teaches residents about water-efficient and environmentally-friendly landscaping. West Basin's vibrant education program hosts thousands of school children each year at our water recycling facility, holds an annual water awareness art contest, and sponsors high school solar cup boat-building teams and a higher education scholarship program.

Supplies of imported water from the Sacramento-San Joaquin Bay Delta and the Colorado River have been severely challenged and cut back in recent years due to climate change, increased

### **RELIABILITY MILESTONES**

**1991:** West Basin and the City of Los Angeles reach agreement to deliver treated sewage water from Los Angeles' Hyperion plant to a new Water Recycling Facility in El Segundo for further treatment and delivery for commercial, industrial, municipal and industrial uses.

**1993:** West Basin begins treatment of brackish water from a saline plume trapped in the West Coast Groundwater Basin.

**1994:** West Basin Hyperion Pump Station is built to pump water to the facility.

**1995:** Water Recycling Facility construction is complete and delivers water to its first customer.

**1997:** Phase II of the Water Recycling Facility is complete, expanding production capacity of tertiary water and barrier water.

**1999:** West Basin completes construction of the Juanita Millender-McDonald Regional Water Recycling Facility in Carson, the first on-site, ultra-purification treatment plant in the nation.

**2000:** Phase III of the Water Recycling Facility expands the capacity of the micro-filtration and reverse osmosis treatment facilities.

**2001:** Construction of first lateral on Harbor/South Bay Water Recycling Project is complete, designed to conserve more than 16 billion gallons of potable water.

**2004:** Construction begins on Phase V Expansion of the Water Recycling facility.

regulation and environmental restrictions. West Basin's response to this challenge is the Water Reliability 2020 Program (WR 2020). The focus of WR 2020 (which began in 2008) is reducing our region's dependence on imported water from 66% to 33% by the year 2020. In pursuit of this goal, West Basin is expanding its production of recycled water, doubling conservation, and adding desalted ocean-water to its water supply portfolio to control more of our water supplies locally. WR 2020 has more than 3,000 supporters and is steadily growing thanks to extensive public outreach.

### WATER RECYCLING

In 1992, West Basin received federal funding to implement a water recycling program. Three years later, West Basin completed the construction of the West Basin Water Recycling Facility (WBWRF), a water treatment facility in the City of El Segundo that takes wastewater that would otherwise be dumped into the ocean and purifies it into a usable water resource.



The City of El Segundo uses recycled water in various locations, including the landscaping and dual-plumbed toilets in their new green fire station.

West Basin's water recycling facility is named the Edward C. Little Water Recycling Facility (ECLWRF) to honor the 6-term commitment made to West Basin and our constituents by Director Edward C. Little (recently re-elected to his 7<sup>th</sup> term). The ECLWRF is a world-class, state-of-the-art facility that is the largest of its type in the world. Working with customers like Toyota, Honda, ExxonMobil, bp, Chevron, Goodyear, Cal State University Dominguez Hills, Home Depot Center, Raytheon, L.A. Air Force Base, Marriott, various cities and the Water Replenishment District, West Basin has built a one-of-a-kind water recycling program with the capacity to expand throughout our service area.

### RELIABILITY MILESTONES (CONT.)

**2005:** West Basin's Water Recycling Facility celebrates its 10<sup>th</sup> anniversary.

**2007:** Construction complete on Phase IV Expansion, increasing recycled water production by 15 million gallons per day.

**2007:** West Basin Board of Directors renames the Water Recycling Facility the Edward C. Little Water Recycling Facility in honor of Director Little's 6-term commitment to water reliability and the West Basin service area.

**2007:** Planning begins on Phase V Expansion of the Edward C. Little Water Recycling Facility to double the plant's production capacity.

**2008:** West Basin Board certifies the Environmental Impact Report (EIR) for the Ocean-Water Desalination Demonstration Facility.

**2009:** California Coastal Commission approves West Basin Ocean-Water Desalination Demonstration Facility permit.

**2009:** West Basin completes Capital Improvement Master Plan (CIMP).

**2009:** West Basin and Water Replenishment District sign agreement to increase amount of highly purified recycled water to the West Coast Basin groundwater barrier to 100% by 2011.

**2010:** Desalination Demonstration facility and new Water Education Center are complete and dedicated to the public.

This facility produces more than 30 million gallons of recycled water every day for more than 300 customers. Uses of recycled water include irrigation, boiler feeds, cooling towers, street sweepers and injection into seawater barriers to prevent our local groundwater supplies from being contaminated by the ocean. This world-class water purification facility produces five types of “designer” waters to serve specific customer needs for various uses, including golf courses, professional soccer fields, street sweeping, restrooms, boilers, cooling towers and other commercial, municipal and industrial uses. All five (5) types of designer water meet the treatment and water quality requirements specified in the California Department of Public Health’s Water Recycling Criteria and permitted by the Los Angeles Regional Water Quality Control Board.



95% of Cal State University Dominguez Hills’ (Carson) on-campus irrigation is supplied by recycled water from the Edward C. Little Water Recycling Facility.

- **Tertiary Water:** Secondary treated wastewater that has been filtered and disinfected for a wide variety of industrial and irrigation uses.
- **Nitrified Water:** Tertiary water that has been nitrified to remove ammonia for industrial cooling towers.
- **Reverse Osmosis Water:** Secondary treated wastewater pretreated by micro-filtration, followed by reverse osmosis (RO) and disinfection (UV/peroxide treatment) for groundwater recharge, which is superior to state and federal drinking water standards.
- **Pure Reverse Osmosis Water:** Secondary treated wastewater that has undergone micro-filtration and RO for low-pressure boiler feed water.
- **Ultra-Pure Reverse Osmosis Water:** Secondary treated water that has undergone micro-filtration and two passes through RO for high-pressure boiler feed water.



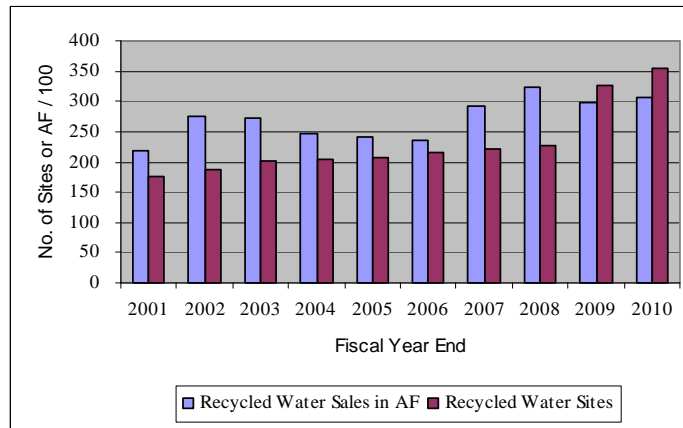
The City of Redondo Beach uses recycled water in various locations, including street medians, ballfields and parks (pictured here: Dominguez Park).

In addition to providing recycled water for commercial and industrial uses, high-quality recycled water produced by West Basin is blended with potable water and injected into the South Bay’s groundwater basin to prevent seawater intrusion into our local aquifers. The seawater west coast barrier is a series of injection wells positioned like a dam between the ocean and the groundwater aquifer. These wells inject water along the barrier to ensure that the water level near the ocean stays high enough to keep the seawater from seeping into the aquifer. The West Coast Basin Seawater Barrier receives 75% high-quality recycled water, mixed with 25% potable water. In April 2009, West Basin and the Water Replenishment District of

Southern California signed an agreement to increase the amount of water supplied to the barrier to 100% by 2011. This step will eventually save 5.5 billion gallons of drinking water a year.



**Recycled Water AF vs. No. of Sites - June 30, 2010**



**WATER QUALITY**

Since 1989, West Basin has administered a groundwater quality testing program for the retail water agencies within its service area. The program assists local retail water agencies in complying with state and federal drinking water regulations at the wellhead. West Basin also ensures compliance with water quality requirements for the ECLWRF and ocean-water desalination project. Each year, about 25,000 water quality tests are conducted at the ECLWRF.



High efficiency toilets, high efficiency faucets, and kitchen sprayers are some of the devices offered through West Basin’s water efficiency programs (while supplies last), with support from CA Dept of Water Resources, U.S. Bureau of Reclamation, Metropolitan Water District, West Basin, and retail water providers .

**ENSURING A SAFE AND RELIABLE WATER SUPPLY**

Though the population here in Southern California has steadily increased, water usage in West Basin’s service area has remained steady due to the success of West Basin’s programs focused on conservation, education, public outreach, government affairs, water recycling, and ocean-water desalination. Here’s a summary of our efforts:

**CONSERVATION**

West Basin’s water conservation program is aimed at reducing the consumption of potable water (groundwater and imported water) in homes, yards, businesses, and industry. Since 1991, West Basin has successfully offered many programs to its residential communities, saving millions of gallons of precious drinking water each year. West Basin joined a state conservation effort at that time, committing resources to urban water conservation and implementation of its “Best Management Practices” (BMPs).

West Basin’s Conservation Master Plan (Plan), developed in 2005, is a road map for implementing efficient, cost-effective conservation programs across residential and business sectors, both indoors and out. It also provides partnership and outreach opportunities to local

cities, retail water agencies, community groups, nonprofit organizations and consumers. West Basin is also serving the commercial, industrial and public sectors. The Plan is currently being updated to set revised conservation targets through 2020, to meet the Governor's mandate to reduce water use by 20% by 2020. By 2020, West Basin is planning to meet 14% of our service area's retail water demand through conservation. Through investments made by the State of California, U.S. Bureau of Reclamation, and MWD, for every \$1 that West Basin invests in conservation, it is able to provide \$6 in conservation programs for the community.

Conservation workshops for residents, community groups and city officials are held on an ongoing basis throughout the year. These often involve grant opportunities, water audits or equipment distribution workshops (low-flush toilets, "smart" landscaping controllers, showerheads, faucet aerators, and other such devices) aimed at educating the community about water conservation and reinforce West Basin's leadership role in making our water supply more reliable.

- Ocean-Friendly Landscapes: With 30-70% of water use in West Basin's service area taking place outdoors, this program is offered in partnership with the Surfrider Foundation and teaches residents with yards of all sizes how to create *Ocean-Friendly Landscapes*. This program is made possible through a combination of grant funding sources that include West Basin, MWD, California Department of Water Resources, and U.S. Bureau of Reclamation. Workshops will take place throughout the service area through 2011. Demonstration gardens will be created at various locations, including those previously mentioned as having been created at West Basin's facilities, to showcase the various drought-tolerant plants, permeable pavements, drip line irrigation, water-efficient designs and water retention techniques that make a landscape ocean-friendly, cutting water use and reducing runoff into the ocean. West Basin's water-efficient landscaping is saving up to 80% of its previous water use by implementing these simple and practical changes.
- Water & Energy Efficiency Devices: Due to the many relationships West Basin has established with retail water providers, cities and nonprofits like the South Bay Environmental Services Center, our water-efficiency programs are now being combined with energy-efficiency programs to maximize the impact that our programs have on consumers' water and energy use. Through two new programs, *Cash for Kitchens* and *Green Living for Apartments and Condos*, businesses and residents can take advantage of *free* water and energy audits and, if they qualify, receive water and energy efficient devices, installed. West Basin has held toilet and



The water conservation exhibit at West Basin's new Water Education Center compares the amount of water used in water efficient devices to water wasting devices.



sprinkler exchange programs, where West Basin works directly with residents to exchange an old water-wasting toilet for a new water efficient one, or an inefficient sprinkler for a new, smart irrigation controller. The high-efficiency toilet distribution program will help residents collectively save 35 million gallons of water a year. Replacing leaky sprinklers with “smart” sprinkler controllers can help a resident save up to 47 gallons per day.

**FY 2009-10 Device Savings**

<b>Program</b>	<b>Device</b>	<b>Annual Water Savings (AF)</b>	<b>Device Lifetime Water Savings (AF)</b>
Green Garden Program	Surveys, 166 Smart Controllers, rotating sprinkler nozzles	8 AF	80 AF
Green Living for Apartments	2,000 HET toilets, CFL’s, showerheads and sink aerators	80 AF	1600 AF
Large Landscape Survey Program	Conducted 15 Surveys and provided recommendations	5 AF	10 AF
1-Day Toilet Distribution Events	1,700 HET toilets	68 AF	1,360 AF
Recirc and Save	10 pH Conductivity Controller Retrofits	19 AF	97 AF
Phase 3 Torrance Marriott	170 in-room HET Toilets, plus retrofit of the lobby urinals and sinks	9 AF	182 AF

<b>Total</b>	<b>189 61M Gallons</b>	<b>3,329 1 B Gallons</b>
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- Smart Landscape Expo: Our second Smart Landscape Expo in spring 2010 provided four (4) hours of networking for residents to talk with businesses that provide tools, products and training for how to create and maintain water efficient yards. Water efficient devices and native plants were available for purchase and hands on workshops taught practical landscaping skills.
- Zero Runoff Street Median: The *Zero Runoff Street Median Program* provides cities with incentives to adjust irrigation on street medians to reduce water use and runoff.

**EDUCATION**

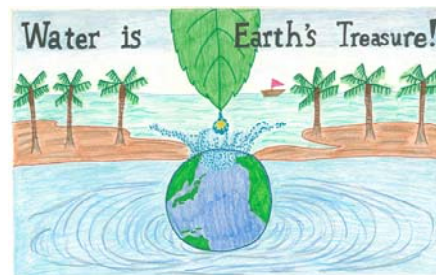
West Basin’s award-winning water education programs inform teachers and students in a lively and engaging manner about the importance of water conservation and environmental sustainability. West Basin offers five programs to engage students:

- Water Education Center: In development for most of Fiscal Year 2009-2010, West Basin's new Water Education Center is a visual portfolio showcasing water conservation, water recycling, imported water, and ocean-water desalination. This new water museum is located at the SEA Lab in Redondo Beach, adjacent West Basin's new Ocean-water Desalination Demonstration Facility. Up to 5,000 school children will visit the facility each year as part of West Basin's Water Explorations School Tours program.



- Water Explorations Tours: This unique program showcases water recycling at the ECLWRF in El Segundo and environmental stewardship across West Basin programs at a level appropriate for children in 3<sup>rd</sup> thru 12<sup>th</sup> grades. This program combines in-classroom participation, a tour, and a visit to a nearby aquarium. The water recycling tour emphasizes water conservation, marine life protection and the production of alternative water sources such as recycled water and desalinated ocean-water.
- Splash Science: In collaboration with the SEA Lab in Redondo Beach, a program of the Los Angeles Conservation Corps, a traveling tidepool van constructed with touch tanks, visits schools within West Basin's service area and encourages students to interact with live marine animals at their school site. This program was developed in accordance with state curriculum standards, taking 4<sup>th</sup> graders on a journey through California's water systems.

- Water is Life Student Art Contest: This annual art contest inspires young people to learn and tell visual stories about the value of water and the importance of using it wisely. The program invites participation from students in elementary, middle and high school and provides an iMac laptop computer for the Grand Prize winners and gift certificates to Michael's Arts and Crafts stores for the Honorable Mention Awardees. Winners are selected in anticipation of May's Water Awareness Month. West Basin combines winning artwork with conservation tips, turning them into posters and bookmarks for local libraries, available at the checkout counter during the month of May.



- Solar Cup: Led by MWD, this program encourages Southern California high school teams to construct and race a solar-powered boat while learning about water, engineering and science. Beginning in the fall, students spend an entire school year

working together to build their boats with the final race taking place over Solar Cup weekend at Lake Skinner in May.

- **Scholarship Program:** A new program in 2009, the Board of Director’s Scholarship program provides \$1,000 to up to 10 students graduating from high school within West Basin’s service area, who are interested in pursuing studies at a trade school, junior college or university with a focus on entering a career in the water industry.

Program Participation	<u>FY08</u>	<u>FY09</u>	<u>FY10</u>
Education - Growing Great	0	4,000	5,000
Education – Scholarship Program	0	24	40
Education – Splash Science	2,500	2,500	2,500
Education – Solar Cup	30	30	60
Education – Water Explorations School Tour	2,500	6,800	6,800
Education – Water is Life Art Contest	320	430	672

**PUBLIC OUTREACH**

West Basin reaches out to the public in multiple mediums to convey news about our water supply and conservation tips, to offer opportunities to participate in our conservation, education and public tours programs and receive feedback. The focus of all of our outreach is Water Reliability 2020, a program designed to reduce our dependence on imported water by increasing the amount of water we conserve and produce locally. By 2020, West Basin will double our water recycling and water conservation programs and include desalted ocean-water as part of our water supply portfolio.



“Don’t be a water monster” video game encourages young people to discover ways to save water at home. The game is playable for free at [www.westbasin.org](http://www.westbasin.org).

Presentations to community groups are arranged through our Speaker’s Bureau. In addition, plant tours are offered to the public on the second Saturday of each month, and special events of all sizes are hosted on an ongoing basis. Our public affairs team reaches out to editors and writers of newspapers and magazines throughout our service area and hosts tours of our water recycling facility for those that are interested in how we work. We regularly update our website with news of our programs, updates on the water supply and water industry and distribute a quarterly e-newsletter.

- **Website:** [www.westbasin.org](http://www.westbasin.org) provides information about all of West Basin’s programs, with an emphasis on WR 2020, our work to reduce our dependence on imported water in half by the year 2020. We also provide an animated home conservation tour to show people easy ways to save water indoors and outdoors, an animated tour of our water recycling process – including microfiltration, reverse osmosis, and ultraviolet light, and “live” measurements of our recycled water production (more than 100 billion gallons to date) and the amount of energy we’re producing, and saving, through the use of solar panels (10% of our peak energy demands). In 2010, West

Basin added the “Don’t be a Water Monster” children’s conservation video game to its website, providing a fun learning opportunity for children and parents alike, with clues in different home environments that lead the player to figure out who is the water wasting culprit.

- Water Star: West Basin’s new WR 2020 Water Star program encourages elementary aged school children to sign up to save 20 gallons a day, reducing our dependence on imported water and reducing runoff to the ocean. Children receive a water star conservation kit complete with fix-it tickets, a water star badge, shower timer, faucet aerator, and other water-saving reminders.



- Publicity: As we develop strong relationships with local, regional and national press, magazines, electronic media, and other public forums, media outreach is a priority for West Basin. Our efforts are focused on encouraging citizens to learn about our water supply, the need to make it more reliable, and West Basin’s leadership and services.

- Events: Water Harvest each fall is West Basin’s annual, signature event to have fun and share water supply information and conservation tips, offer tours of our water recycling facility and meet our neighbors. Partners in this popular festival include customer cities and water purveyors, local businesses and environmental organizations and others. The event is held at the ECLWRF in El Segundo and continues to grow each year.



The 2010 Water Harvest festival drew 3,000 people for a half day of water education and tours of the Edward C. Little Water Recycling Facility.

- Tours: At the Edward C. Little Water Recycling Facility, West Basin regularly hosts foreign delegations, elected officials, water industry representatives, and regional and local organizations to share technical expertise and “best practices” in water recycling technologies. We additionally offer free tours for the public on the second Saturday of each month, to introduce the community to their water supply. There is a significant waiting list for public tours, demonstrating a growing public interest in water issues. As of January, 2011, West Basin will also offer guided public tours of its Ocean-water Desalination Demonstration Facility and Water Education Center in Redondo Beach.

- Construction outreach: Our construction outreach efforts support West Basin’s capital improvement projects when construction requires access through residential or business communities. These efforts often include community meetings and specialized outreach efforts to ensure that local communities are well informed of the nature and timeline of the construction activities that could impact their neighborhoods.

## GOVERNMENT AFFAIRS

West Basin leads an aggressive government affairs program to achieve favorable legislation and public policy at the local, state and federal levels with direct involvement from the Board of Directors, management, staff, and consultants. Our key objectives include efforts for:

- **Legislative Advocacy:** Enhance legislative advocacy efforts on key water-supply legislation impacting West Basin's mission, customers, projects and programs.
- **Coalition Building:** Build strong coalitions and partnerships throughout the region to educate the public and members of the California Legislature on the importance of enhancing local resources such as groundwater pumping, recycled water, and ocean-water desalination.
- **Funding and Regulatory Support:** Pursue government funding and regulatory support for capital projects in conjunction with agency partners such as the U.S. Army Corps of Engineers, California Department of Water Resources, and others.
- **Information sharing:** Inform local City Councils, Councils of Governments, Chambers of Commerce and other formal entities of West Basin's legislative goals, particularly as they relate to specific cities and constituencies.
- **Legislator of the Year Awards:** Honor legislators who have taken an active role in water issues throughout the year by celebrating their efforts as West Basin's *Legislator of the Year*.



West Basin directors present the Water Reliability Legislator of the Year award to Assembly Speaker Karen Bass.

## WHAT THE FUTURE HOLDS

As the population continues to increase within West Basin's service area, we continue to expand our programs to meet increasing water needs and to decrease our reliance on imported water. Meeting West Basin's long-term water supply objectives lies in managing demand through conservation and continuing to grow our local supply sources through ocean-water desalination and water recycling.

## OCEAN-WATER DESALINATION

In May 2002, West Basin initiated piloting efforts to desalinate ocean-water and evaluate its viability as a future water supply source for the region. Supported by various institutions and other interested parties including water agencies and agricultural associations, West Basin began a \$1.5 million ocean-water desalination research pilot project in El Segundo. After five years of data collection and studies, West Basin has identified optimal operating parameters for ocean-water



This Ultrafiltration unit at the NEW Desalination Demonstration Facility in Redondo Beach is the first step in desalinating ocean-water.

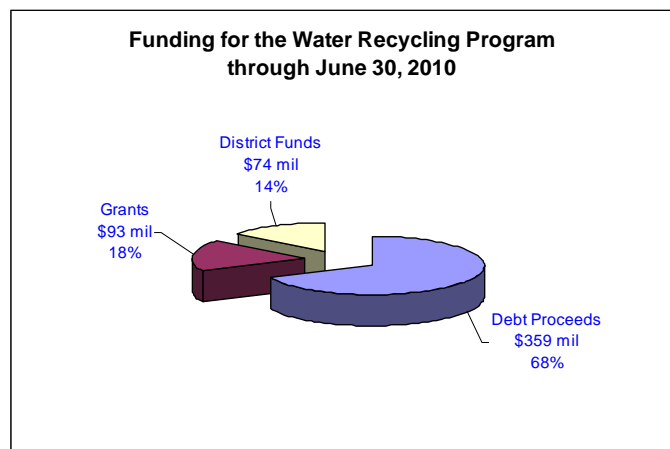


desalination and is expanding desalination efforts into a demonstration-scale facility to test full-scale equipment at the SEA Lab facility Redondo Beach.

In August 2006, West Basin awarded a planning and design contract to construct a temporary Ocean-water Desalination Demonstration Facility that will process 580,000 gallons of seawater per day. This project will develop a basis of design for full-scale operations, evaluate performance of alternative energy practices and technology, analyze water quality, and evaluate integration with local potable water systems. In spring 2009, the California Coastal Commission overwhelmingly approved West Basin's plan to proceed with its Desalination Demonstration Facility to further its research and testing efforts on environmentally-friendly intake technologies and energy recapture. The project will test the viability of a future, full-scale desalination plant capable of providing 6.5 billion gallons of potable water, enough to supply 40,000 families for a year.

### WATER RECYCLING PROJECTS

A significant aspect of West Basin's Water Recycling Program is the development of the Harbor/South Bay Water Recycling Project, a partnership between West Basin and the U.S. Army Corps of Engineers that includes more than 16 projects with nearly 60 miles of pipeline. To meet the increased demand on the system brought on by the construction of the Harbor/South Bay Water Recycling Project and the 75% Seawater Barrier/Replenishment Project, West Basin completed the \$54 million Phase IV Expansion Project at the ECLWRF. The Phase V Expansion Project is in the planning and design phase. Phase V includes expansion to Chevron as well as expansion at ECLWRF and the Carson facility to increase high-quality recycled water production for the Seawater Barriers.



Overall, the Harbor/South Bay Water Recycling Project is expected to conserve more than 3.2 billion gallons of potable water annually. In 2009, West Basin received \$5.2 million in federal stimulus funding and \$2.9 million in federal appropriations to continue expanding the Harbor/South Bay water recycling project.

The Capital Improvement Program (CIP) updates the hydraulic system model, evaluates recycled water service opportunities, identifies potential required capital facilities to meet West Basin's objectives, and develops implementation schedules, costs, and priorities. The CIP has been created in anticipation of the Long Range Financial Plan.

To assist in long-term implementation of West Basin's capital facilities, an updated Capital Implementation Master Plan (CIMP) has been developed to address the recycled water supply objectives and provide a roadmap for future capital facilities by prioritizing the capital improvement projects needed to expand and maintain West Basin's recycled water system to grow from roughly 30,000 Acre Feet per Year (AFY) to 70,000 AFY by 2020.



## **FINANCIAL INFORMATION**

### **ACCOUNTING SYSTEM**

As required by Generally Accepted Accounting Principles for enterprise funds, accounts are maintained and financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Accordingly, revenues are recognized when earned, and expenses are recorded when incurred, regardless of the timing of related cash flows. West Basin's Finance Department is responsible for the overall accounting, finance and administrative functions, which include cash management, treasury and debt management, accumulation and processing of accounting information, financial reporting and contracts administration.

### **INTERNAL CONTROLS**

West Basin's management is responsible for the establishment and maintenance of internal accounting controls that ensure assets are safeguarded and financial transactions are properly recorded and adequately documented. To ensure that the costs of controls do not exceed the benefits obtained, management uses cost estimates and judgments to attain reasonable assurance as to the adequacy of such controls.

### **BUDGET PROCESS AND CONTROLS**

West Basin is not legally required to adopt a budget. However, West Basin has implemented the annual budget as a management tool. The budget cycle starts with the development of the proposed budget, conducting budget workshops and adoption of rates and charges and concludes with the adoption of the final budget. Developing the budget requires involvement from all departments from labor allocations to development of project budgets. Comparisons to projected and actual costs are made to ensure that all appropriate costs are included.

Budget requests are evaluated at several levels to ensure debt coverage is attained, and the inclusion of program costs are deemed necessary to accomplish the goals and objectives set by the General Manager and the Board of Directors. The Board of Directors generally approves the operating budget of West Basin for the following fiscal year (July 1 to June 30) at its May Board meeting each year.

West Basin's departments review monthly budget-to-actual comparisons to identify material fluctuations or unusual items. The budget-to-actual analysis is presented to the Board of Directors on a quarterly basis where significant variances are explained.

The budget is amended when expenditures are anticipated to significantly exceed estimates. Budget amendments can also occur for expenditures seen as appropriate charges but were not anticipated in the budget process. Any amendments adding to the original budget are brought to the Board of Directors in staff reports. The staff reports describe why, how much and which program budget requires an amendment to the original budget. These approvals are discussed at Board meetings and require a majority vote of the Board of Directors to be incorporated.

### **CREDIT RATING AND DEBT COVERAGE**

The latest credit rating from Moody's and Standards & Poor's is Aa2 and AA-, respectively. In order to maintain these ratings, West Basin has internally set budgeted debt coverage goals, updated financial policies and updated rates as appropriate. This past calendar year, West Basin has made significant improvements in its policies. The Board has adopted a Debt Management Policy and Swap Policy, and continues to make improvements to its award-winning Investment Policy. In

July 2010, West Basin received a Model Investment Policy award from the Association of Public Treasurer's. Each of these efforts lends to a solid management focus on fiscal policies and metrics and has assisted West Basin to receive strong ratings and allow West Basin to obtain low-cost financing for its capital projects.

Please refer to the Statistical Section for the 10-year historical information on West Basin's debt coverage. In Fiscal Year 2005-2006, the subordinate debt coverage was not achieved due to lower-than-budgeted barrier sales due to poor water quality and Los Angeles County operational issues and also higher than anticipated legal expenses. West Basin has budgeted to exceed required debt coverage on both parity and subordinate debt in the following fiscal years.

To maintain its financial strength, West Basin has been working this past year to develop a Long-Range Financial Plan (LRFP). This LRFP will incorporate the revenue and expense assumptions used in a dynamic financial model to address anticipated operating and capital expenditures. The capital recycled water expenditures are based on the CIMP and updated estimates for the Ocean-water Desalination Demonstration facility. In addition, the model provides the basis for certain criteria to be incorporated into financial policy development, such as debt management, swap and designated fund levels. West Basin continues to monitor its assumptions to actual to ensure it remains a financially healthy organization.

#### SOURCE OF REVENUE

West Basin primarily receives its source of revenue from imported and recycled water sales. Imported water sales totaled \$101.3 million for the fiscal year ending June 30, 2010, while recycled water sales amounted to \$28 million for the same period. More detailed information regarding West Basin's revenues is presented in the statistical section –Table 2: Changes in Net Assets (Last Ten Fiscal Years) and Table 3: Operating Revenues by Source (Last Ten Fiscal Years).

#### WATER RATES

West Basin establishes rates and charges annually through a resolution by the Board of Directors. Starting in fiscal year ended June 30, 2003; West Basin implemented a new potable pricing structure that incorporates MWD's new rates. The statistical section provides more detailed information about the rates under Table 11: Average Water Rates per Acre-Foot (Last Ten Fiscal Years) and Table 12: Imported Water Rates.

#### DESIGNATED FUNDS

West Basin categorizes its funds into either unrestricted or restricted. Unrestricted funds consist of designated funds that can be used for any lawful purpose at the discretion of the Board of Directors. The monies held within designated funds can be shifted or re-allocated at any time at the Board of Directors' direction. At this time, West Basin has identified the following designated funds: Operating Fund, PayGo Fund, Rate Stabilization Fund, Facility Replacement Fund that includes Capital Asset Replacement, Emergency Repairs and System Enhancements, Swap Termination Fund and Bond Defeasance Fund.

Restricted funds consist of funds with external restrictions imposed by creditors, grantors, contributors, or by laws or regulations of government and can only be used for a designated purpose. Currently, West Basin's only restricted funds are the Bond Reserve Funds.

## DISTRICT STAFF SERVICES

West Basin employs 34 persons, of whom 22 work in the operations, planning, communications and engineering departments and 12 work in accounting or administration.

## ACKNOWLEDGEMENTS

We would like to thank the members of the Board of Directors for their continued support in the completion of this document and the implementation of projects throughout the year. We would also like to thank members of the finance staff who contributed to this report.

Respectfully,



Richard Nagel  
General Manager



Margaret Moggia  
Chief Financial Officer

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

West Basin Municipal Water  
District, California

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2009

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

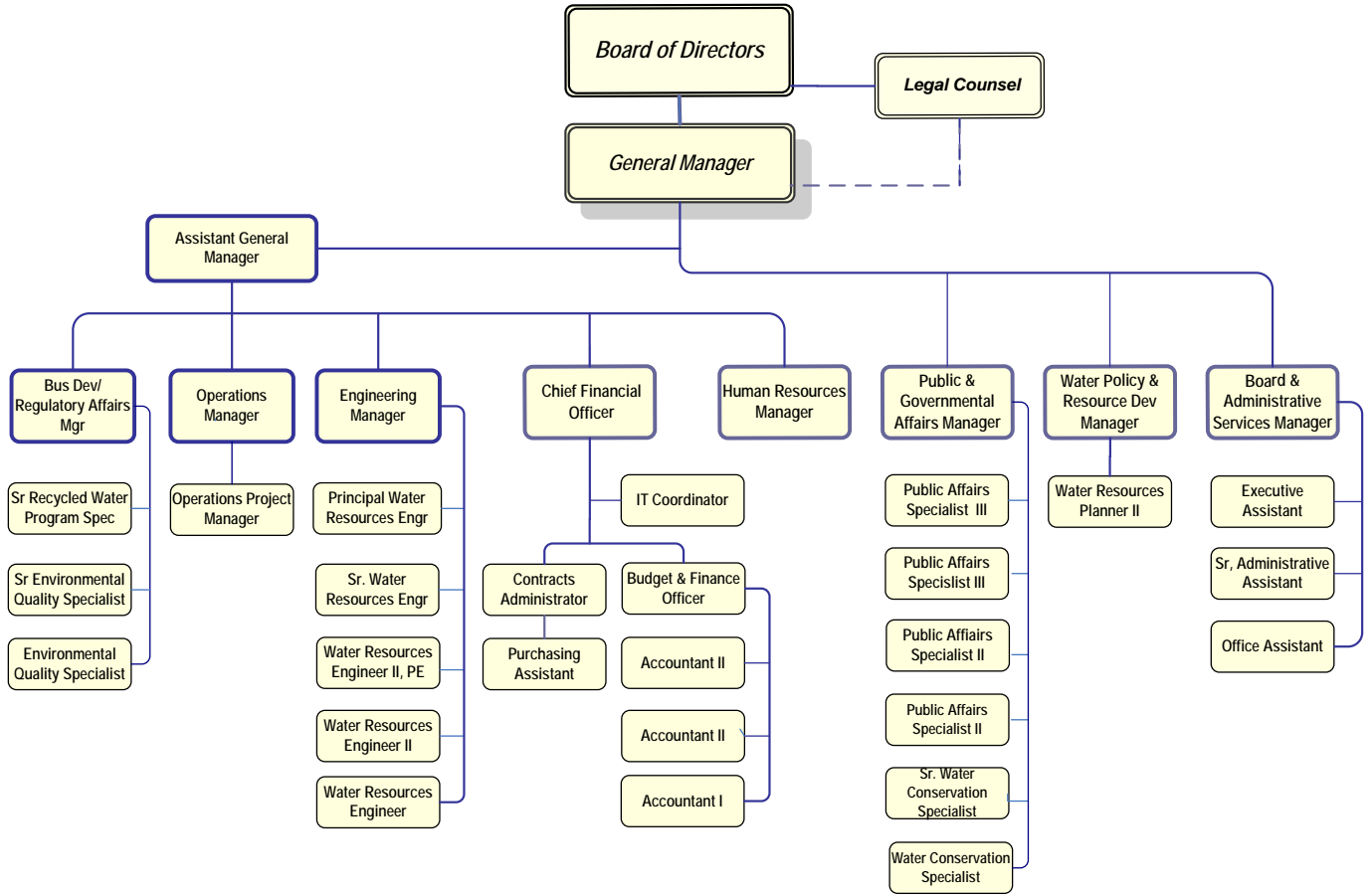


President

Executive Director

# WEST BASIN MUNICIPAL WATER DISTRICT

June 2010





**Mayer Hoffman McCann P.C.**

An Independent CPA Firm

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Board of Directors

**WEST BASIN MUNICIPAL WATER DISTRICT**

Independent Auditors' Report

We have audited the accompanying basic financial statements of the West Basin Municipal Water District ("District"), as of and for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the management of the District. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information has been derived from the financial statements of the West Basin Municipal Water District for the year ended June 30, 2009 and, in our report dated November 9, 2009, we expressed an unqualified opinion on those financial statements.

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 financial position of the District as of June 30, 2010, and the changes in financial position and cash flows, of the West Basin Municipal Water District for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As further described in note 9 to the financial statements, the District changed its method of accounting for derivative instruments beginning with the fiscal year ending June 30, 2010.

The information identified in the accompanying table of contents as *management's discussion and analysis* is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The introductory section and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section and statistical tables



Board of Directors  
West Basin Municipal Water District  
Page Two

have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 10, 2010 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

*Meyer Hoffmann Melara P.C.*

Irvine, California  
December 10, 2010

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of West Basin's financial performance provides an overview of the District's financial activities for the fiscal year ending June 30, 2010. We encourage readers to consider the information presented here in conjunction with West Basin's financial statements and related notes, which follow this section.

### FINANCIAL STATEMENTS

This discussion and analysis provides an introduction and a brief description of West Basin's financial statements, including the relationship of the statements to each other and the significant differences they provide. The financial statements include four components: Statement of Net Assets; Statement of Revenues, Expenses and Changes in Net Assets; Statement of Cash Flows; and Notes to the Financial Statements.

The Statement of Net Assets includes all of West Basin's assets and liabilities with the difference between the two reported as Net Assets. Net Assets may be displayed in the following categories: Invested in Capital assets, net of related debt; and Unrestricted Net Assets. The Statement of Net Assets provides the basis for evaluating the capital structure and assessing the liquidity and financial flexibility of West Basin.

The Statement of Revenues, Expenses and Changes in Net Assets present information that shows the result of West Basin's financial performance during the year. All of the current year's revenues and expenses are accounted for in this statement. The Statement measures the success of the District's operations over the past year and determines whether West Basin has recovered its costs through user fees and other charges.

The Statement of Cash Flows provides information regarding the West Basin's cash receipts, cash disbursements and net changes in cash resulting from operations, investing, and capital and non-capital financing activities. This statement differs from the Statement of Revenues, Expenses and Changes in Net Assets because this Statement accounts only for the transactions that resulted in actual cash receipts and cash disbursements during the fiscal year.

The Notes to the Financial Statements provide additional information that is essential to provide a full understanding of the data as shown in the basic financial statements as well as a description of the accounting policies used to prepare the financial statements. It also presents material disclosures required by generally accepted accounting principles that are not otherwise present in the financial statements.

### FINANCIAL HIGHLIGHTS

The Statement of Revenues, Expenses and Changes in Net Assets shows during the fiscal year ending June 30, 2010, the District's total Net Assets increased by \$10,656,676. The increase is from these two major categories:

- Total operating revenues increased by more than \$23 million and total operating expenses increased by more than \$19 million. The reason for the increase was due to the increase in water rate by the District and MWD.
- A new Statement (No. 53) issued by Governmental Accounting Standard Board requires West Basin to disclose its financial position regarding the swaps. In the current fiscal year,

West Basin swaps position has been improved, and shows a positive increase in value of \$5.7 million.

In addition, water recycling operating costs and depreciation expenses also slightly increased. Total non-operating expenses increased by \$227,269 because of the disposal of certain capital assets and a legal settlement when compared with the prior fiscal year.

West Basin continues to receive contributions for its recycling operations from bp, Chevron, Exxon Mobil, Army Corp of Engineers and other governmental agencies. The total capital contribution for the year was \$15,318,648.

More information on the financial statements variances is covered in the next section.

## FINANCIAL ANALYSIS OF THE FINANCIAL STATEMENTS

### STATEMENT OF NET ASSETS

An analysis of the Statement of Net Assets shows overall Net Assets decreased by \$8,570,397. This change reflects an increase of \$10.7 million in Net Assets from the current year operation and an adjustment (or reduction) of \$19.2 million for the prior year operation.

Prior year adjustments to Net Assets occurred due to the correction of the incorrect information provided by the Army Corps of Engineers that overstated the value of Construction in Progress projects by \$3.6 million in their Fiscal Year 2008-09 report; and the recording of the fair value of a negative \$15.7 million at June 30, 2009 of the non-hedged interest rate swap transactions. The latter is the result of implementing statement (No. 53) assigned by the Governmental Accounting Standard Board (GASB). This statement requires West Basin to disclose its financial position of the swaps in this year's financial statement.

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
<b>ASSETS</b>		
Current Assets	\$104,353,377	\$101,278,482
Noncurrent Assets		
Capital Assets, Net	413,472,203	408,733,736
Net OPEB Asset	653,350	597,154
Deferred outflows – interest rate swap	4,496,309	0
Unamortized Bond Issuance Costs	2,964,085	2,909,092
Total Assets	<u>\$525,939,324</u>	<u>\$513,518,464</u>
<b>LIABILITIES</b>		
Current Liabilities	39,340,373	33,540,728
Long Term Liabilities	292,588,524	277,396,912
Total Liabilities	<u>\$331,928,897</u>	<u>\$310,937,640</u>
<b>NET ASSETS</b>		
Invested in capital assets, Net of Related Debt	138,495,972	135,653,209
Unrestricted	55,514,455	66,927,615
Total Net Assets	<u>\$194,010,427</u>	<u>\$202,580,824</u>

### STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

The result of West Basin's current year financial performance shows a positive increase of \$10,656,670 in total revenues over total expenses. In the current fiscal year, the \$23 million

additional operating revenue and \$19 million additional operating expenses when compared with last year is largely due to both West Basin and MWD passing through water rate increases. Total Nonoperating Revenue (Expenses) improved in the current year due to improvement in the fair value of the swaps by \$5.7 million which required disclosure of this year's statement complies with GASB No. 53 requirements.

	June 30, 2010	June 30, 2009
<b>OPERATING REVENUES</b>		
Water	\$ 101,365,201	\$ 82,568,807
Water recycling revenue	28,011,549	23,599,078
Conservation & monitoring	912,083	969,618
Desalting revenue	333,775	566,188
Total Operating Revenues	<u>\$ 130,622,608</u>	<u>\$ 107,703,691</u>
<b>NON-OPERATING REVENUES</b>		
Standby Charges	9,679,063	9,701,131
Investment income	1,426,242	3,092,797
Change in fair value of swap instrument (nonhedged)	5,701,607	0
Miscellaneous Income	557,072	161,229
Non-capital grant Income	212,807	81,768
Total Non-Operating Revenues	<u>\$ 17,576,791</u>	<u>\$ 13,036,925</u>
<b>TOTAL REVENUES</b>	<b>\$ 148,199,399</b>	<b>\$ 120,740,616</b>
<b>OPERATING EXPENSES</b>		
Source of Supply	92,276,466	76,152,515
Water recycling costs	23,477,102	21,528,411
Depreciation and amortization	17,077,536	16,190,444
Communication and monitoring	4,360,178	4,476,140
Water resource planning	1,043,584	1,096,015
Desalting operations	550,935	480,732
Total Operating Expenses	<u>138,785,801</u>	<u>119,924,257</u>
<b>NON-OPERATING EXPENSES</b>		
Miscellaneous expenses	656,254	0
Loss on disposition of assets	921,731	0
Interest expense	12,497,585	13,848,301
Total Non-Operating Expenses	<u>14,075,570</u>	<u>13,848,301</u>
<b>TOTAL EXPENSES</b>	<b><u>\$ 152,861,371</u></b>	<b><u>\$ 133,772,558</u></b>
Net Income (Loss) before Capital Contributions	(4,661,972)	(13,031,942)
Capital Contributions	15,318,648	12,644,386
Changes in Nets Assets	10,656,676	(387,556)
Net Assets, Beginning of Year, As Restated	<u>183,353,751</u>	<u>202,968,380</u>
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 194,010,427</b>	<b>\$ 202,580,824</b>

The capital contributions are from two major categories: the fixed payments from major recycled water customers which resulted in \$7.7 million to West Basin and the contributed facilities from the U.S. Army Corp of Engineers which resulted in a \$7.6 million increase in the total project value.

## CAPITAL ASSETS

At June 30, 2010, the District invested in capital assets is accumulated to \$536,116,773. Capital assets including land, discharge capacity rights, water facilities, buildings and improvements, furniture, fixtures and equipment and construction in progress. This amount represents an increase of \$23,735,591 over prior year. For more information regarding the District's capital assets, please refer to Note 4 of the Notes to Financial Statements. The following is a summary of capital assets:

	June 30, 2010	June 30, 2009
Land	\$ 25,211,646	\$ 25,211,646
Discharge Capacity	335,000	335,000
Water Facilities	466,318,916	454,104,857
Building and Improvements	2,364,937	2,343,573
Furniture, Fixtures, and Equipment	2,490,983	1,024,489
Construction in Progress, As restated	39,395,291	29,361,612
<b>TOTAL CAPITAL ASSETS</b>	<b>\$536,116,773</b>	<b>\$512,381,177</b>

The details of the changes to the District's Capital Assets for the past two years are shown below:

	June 30, 2010	June 30, 2009
Discharge Capacity	0	335,000
Water Facilities	13,366,450	5,570,308
Groundwater Desalting Facility	94,017	2,590
Building and Improvements	21,364	0
Furniture, Fixtures, and Equipment	1,466,494	13,552
Construction in Progress	22,530,602	14,171,035
<b>Total</b>	<b>37,478,926</b>	<b>20,092,485</b>
Less: Capital assets completed through Construction in Progress	(12,496,923)	(4,935,875)
Less: Deletion of existing capital assets	(1,246,412)	0
<b>TOTAL ADDITIONS</b>	<b>\$23,735,591</b>	<b>\$15,156,610</b>

In fiscal year 2010, several service laterals and a plant optimization project totaling approximately \$12.5 million were completed and capitalized. The District disposed of several capital assets totaling \$1.2 million that had been used for the ocean desalination pilot plant that are determined as no longer in use.

A significant portion of the current year's construction in progress is attributable to West Basin's continued efforts in Ocean Desalination project. In addition, West Basin invested in a Capital Improvement Master Plan, Harbor South Bay projects, and other reliability projects.

## LONG-TERM DEBT

As of June 30, 2010, West Basin had \$310,583,906 in long-term debt including the State of California loan, certificates of participations and interest rate swaps. West Basin paid off \$9.3 million principal of its long-term debts in the current year; however, the total outstanding long-term debt increased by \$15,148,149 from the prior year. The increase is the result of the new issuance of 2010 adjustable rate certificates of participation which has a \$10 million outstanding balance at the end of the fiscal year; and a liability representing that West Basin would owe \$14 million if its three swaps were terminated as of June 30, 2010. The reporting of this liability in the financial statement is required by GASB No. 53 effective on June 30, 2010. For more information regarding West Basin's long-term debt, please refer to Note 5 and Note 9 of the Notes to Financial Statements. The following is a summary for the years:

	June 30, 2010	June 30, 2009
State of California loan	\$ 1,743,027	\$ 2,035,757
Certificates of Participation	294,395,000	293,400,000
Interest rate swaps	14,445,879	0
Total Long-Term Debt	\$310,583,906	\$295,435,757

## ECONOMIC FACTORS AND BUDGET

In June 2010, the Board of Directors approved the budget for the Fiscal Year 2010-2011. The budgeted operating expenses total \$151,324,200. This amount is comprised of approximately \$89.2 million for source of supply, \$23.5 million for debt service, \$24.4 million for water recycling operation and the remaining costs for other programs. Based on achieving certain debt overages, the District has identified \$6.9 million in designated funds.

The Board of Directors have approved increases in imported water rates effective on July 1, 2010 and January 1, 2011 that are based on a formula applied to a base allocation established by MWD that could generate sales from \$861 to \$1,060 per acre-foot. West Basin increased its reliability service charge on imported water to \$66 per acre-foot. Recycled water rates increased \$15 to \$162 (depending on the type of recycled water) per acre-foot effective on July 1, 2010. In addition, the Board of Directors has approved to impose the standby charge at rates similar to prior year.

West Basin has an agreement to partner with the U.S. Army Corps of Engineers (Army Corps) to construct the Harbor/South Bay water-recycling project. The Army Corps will manage the project and provide 75% funding. West Basin will have oversight and contribute the remaining 25% funding. To date, West Basin has contributed approximately \$9,048,666 to these projects and has recognized approximately \$27,500,000 of non-cash contributions.

West Basin has approved a capital budget of approximately \$36,300,000 for the expansion of its facilities, and other miscellaneous capital projects. Approximately \$30,900,000 is identified for customer and West Basin funded projects that will be funded through commercial paper. Funding for the balance of \$5,400,000 will be handled through PAYGO.

## CONTACTING WEST BASIN'S FINANCIAL MANAGER

This financial report is designed to provide our citizens, customers, investors, and creditors with a general overview of West Basin's financial position and to demonstrate West Basin's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Margaret Moggia, Chief Financial Officer of West Basin.



**WEST BASIN MUNICIPAL WATER DISTRICT**

**STATEMENT OF NET ASSETS**

June 30, 2010

(With comparative totals for June 30, 2009)

**ASSETS**

	<u>2010</u>	<u>2009</u>
<b>CURRENT ASSETS</b>		
Unrestricted assets:		
Cash and cash equivalents (note 2)	\$ 34,238,807	\$ 21,382,695
Investments (note 2)	28,141,327	41,966,007
Accounts receivable	25,572,390	20,903,852
Accrued interest receivable	130,743	482,145
Inventory	420,708	501,367
Prepaid expenses	<u>527,706</u>	<u>636,134</u>
Total unrestricted assets	<u>89,031,681</u>	<u>85,872,200</u>
Restricted assets (note 3):		
Cash and cash equivalents (note 2)	18,150	13,925
Investments (note 2)	13,614,100	13,614,100
Accrued interest receivable	324,984	323,330
Retrofit loans receivable	486,657	506,953
Custodial cash (note 2)	877,805	892,974
Custodial accounts receivable	<u>-</u>	<u>55,000</u>
Total restricted assets	<u>15,321,696</u>	<u>15,406,282</u>
<b>TOTAL CURRENT ASSETS</b>	<u>104,353,377</u>	<u>101,278,482</u>
<b>NONCURRENT ASSETS</b>		
Capital assets, net (note 4)	413,472,203	408,733,736
Net OPEB asset (note 7)	653,350	597,154
Deferred outflows - interest rate swap (note 9)	4,496,309	-
Unamortized bond issuance costs:		
2003 refunding revenue certificates of participation	718,379	754,147
2008 adjustable rate refunding revenue certification of participation	205,000	217,000
2008 refunding revenue certificates of participation	1,850,189	1,937,945
2010 adjustable rate revenue certification of participation	<u>190,517</u>	<u>-</u>
<b>TOTAL NONCURRENT ASSETS</b>	<u>421,585,947</u>	<u>412,239,982</u>
<b>TOTAL ASSETS</b>	<u>525,939,324</u>	<u>513,518,464</u>

(Continued)

See accompanying Notes to Financial Statements.

**WEST BASIN MUNICIPAL WATER DISTRICT**

**STATEMENT OF NET ASSETS**

June 30, 2010

(With comparative totals for June 30, 2009)

(CONTINUED)

**LIABILITIES AND NET ASSETS**

	<u>2010</u>	<u>2009</u>
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expense	23,767,543	19,035,643
Accrued interest payable	5,125,147	5,207,355
Current portion of long-term liabilities (note 5)	10,447,683	9,297,730
<b>TOTAL CURRENT LIABILITIES</b>	<u>39,340,373</u>	<u>33,540,728</u>
<b>LONG-TERM LIABILITIES (note 5)</b>		
2003 refunding revenue certificates of participation	121,830,000	128,225,000
2008 adjustable rate refunding revenue certification of participation	35,930,000	37,740,000
2008 refunding revenue certificates of participation	126,635,000	127,435,000
2010 adjustable rate revenue certification of participation	10,000,000	-
State of California loan payable	1,743,027	2,035,757
Interest rate swaps (note 9)	14,445,879	-
Subtotal	310,583,906	295,435,757
Less: Unamortized bond premiums (discounts)	4,280,299	4,487,883
Deferred amount on refunding	(11,827,998)	(13,228,998)
Total	303,036,207	286,694,642
Less current portion above	(10,447,683)	(9,297,730)
<b>TOTAL LONG-TERM LIABILITIES</b>	<u>292,588,524</u>	<u>277,396,912</u>
<b>TOTAL LIABILITIES</b>	<u>331,928,897</u>	<u>310,937,640</u>
<b>NET ASSETS:</b>		
Invested in capital assets, net of related debt	138,495,972	135,653,209
Unrestricted	55,514,455	66,927,615
<b>TOTAL NET ASSETS</b>	<u>\$ 194,010,427</u>	<u>\$ 202,580,824</u>

See accompanying Notes to Financial Statements.

**WEST BASIN MUNICIPAL WATER DISTRICT**

**STATEMENT OF REVENUES, EXPENSES**

**AND CHANGES IN NET ASSETS**

Year ended June 30, 2010

(With comparative totals for the year ended June 30, 2009)

	<u>2010</u>	<u>2009</u>
<b>OPERATING REVENUES:</b>		
Water	\$ 101,365,201	\$ 82,568,807
Water recycling revenue	28,011,549	23,599,078
Water conservation and monitoring	912,083	969,618
Desalting revenue	333,775	566,188
TOTAL OPERATING REVENUES	<u>130,622,608</u>	<u>107,703,691</u>
<b>OPERATING EXPENSES:</b>		
Source of supply	92,276,466	76,152,515
Water recycling costs	23,477,102	21,528,411
Depreciation and amortization	17,077,536	16,190,444
Communications and monitoring	4,360,178	4,476,140
Water resource planning	1,043,584	1,096,015
Desalting operations	550,935	480,732
TOTAL OPERATING EXPENSES	<u>138,785,801</u>	<u>119,924,257</u>
OPERATING INCOME (LOSS)	<u>(8,163,193)</u>	<u>(12,220,566)</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>		
Standby charges	9,679,063	9,701,131
Investment income	1,426,242	3,092,797
Change in fair value of swap instrument (nonhedged)	5,701,607	-
Miscellaneous income	557,072	161,229
Non-capital grant income	212,807	81,768
Miscellaneous expense	(656,254)	-
Loss on disposition of assets	(921,731)	-
Interest expense	(12,497,585)	(13,848,301)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>3,501,221</u>	<u>(811,376)</u>
NET INCOME BEFORE CAPITAL CONTRIBUTIONS	<u>(4,661,972)</u>	<u>(13,031,942)</u>
<b>CAPITAL CONTRIBUTIONS:</b>		
Capital-recovery charges	7,746,840	8,000,812
Contributed facilities	7,571,808	4,643,574
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>15,318,648</u>	<u>12,644,386</u>
CHANGE IN NET ASSETS	10,656,676	(387,556)
<b>NET ASSETS - BEGINNING OF YEAR, AS RESTATED (note 10)</b>	<u>183,353,751</u>	<u>202,968,380</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 194,010,427</u>	<u>\$ 202,580,824</u>

See accompanying Notes to Financial Statements.

**WEST BASIN MUNICIPAL WATER DISTRICT**

**STATEMENT OF CASH FLOWS**

Year ended June 30, 2010

(With comparative totals for the year ended June 30, 2009)

	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 125,920,297	\$ 108,358,964
Cash paid to suppliers of goods and services	(112,970,674)	(99,144,475)
Cash paid to employees for services	<u>(3,852,504)</u>	<u>(4,787,686)</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>9,097,119</u>	<u>4,426,803</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Cash received for standby charges	<u>9,668,654</u>	<u>9,880,187</u>
NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES	<u>9,668,654</u>	<u>9,880,187</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Principal paid on long-term liabilities	(9,297,730)	(9,483,104)
Acquisition and construction of capital assets	(17,410,200)	(14,088,932)
New issuance of long-term liabilities	10,000,000	-
Interest paid on long-term liabilities	(12,772,992)	(12,766,354)
Grants received	212,807	81,768
Capital contributions received	<u>7,746,840</u>	<u>8,000,812</u>
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(21,521,275)</u>	<u>(28,255,810)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Sale of investments	35,669,029	22,594,505
Purchase of investments	(22,020,531)	(33,419,973)
Interest received	<u>1,952,172</u>	<u>2,880,276</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>15,600,670</u>	<u>(7,945,192)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	12,845,168	(21,894,012)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>22,289,594</u>	<u>44,183,606</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 35,134,762</u>	<u>\$ 22,289,594</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO AMOUNTS REPORTED ON THE STATEMENT OF NET ASSETS:		
Cash and cash equivalents	\$ 34,238,807	\$ 21,382,695
Restricted cash and cash equivalents	18,150	13,925
Restricted custodial cash	<u>877,805</u>	<u>892,974</u>
Cash and cash equivalents at end of year	<u>\$ 35,134,762</u>	<u>\$ 22,289,594</u>

(Continued)

See accompanying Notes to Financial Statements.

**WEST BASIN MUNICIPAL WATER DISTRICT**

**STATEMENT OF CASH FLOWS**

Year ended June 30, 2010

(With comparative totals for the year ended June 30, 2009)

(Continued)

	2010	2009
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		
Operating income (loss)	\$ (8,163,193)	\$ (12,220,566)
Depreciation and amortization	17,077,536	16,190,444
Nonoperating miscellaneous revenue	557,072	161,229
Nonoperating miscellaneous expenses	(656,254)	-
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	(4,658,129)	17,544
(Increase) decrease in inventory	80,659	(98,106)
(Increase) decrease in prepaid expense	108,428	(16,511)
(Increase) decrease in net OPEB asset	(56,196)	(838,856)
(Increase) decrease in retrofit loans receivable	20,296	(67,563)
(Increase) decrease in custodial accounts receivable	55,000	476,500
Increase (decrease) in accounts payable	<u>4,731,900</u>	<u>822,688</u>
 NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	 <u>\$ 9,097,119</u>	 <u>\$ 4,426,803</u>
 NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Capital contributions for Harbor South Bay Water Recycling Project from U.S. Army Corp of Engineers	<u>\$ 7,571,808</u>	<u>\$ 1,067,678</u>
Loss on disposition of assets	<u>\$ 921,731</u>	<u>\$ -</u>
Unrealized gain (loss) from investments	<u>\$ 176,182</u>	<u>\$ 378,310</u>
Revenue created by the change in the nonhedged swap fair value	<u>\$ 5,701,607</u>	<u>\$ -</u>

See accompanying Notes to Financial Statements.

## WEST BASIN MUNICIPAL WATER DISTRICT

### NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2010

(1) **Summary of significant accounting policies**

**Organization and description of the district** - The West Basin Municipal Water District (District) was incorporated on December 17, 1947, under the provisions of the Municipal Water District Act of 1911, as amended, (now cited as "The Municipal Water District Law of 1911" Division 20, California Water Code) as a result of an election held December 17, 1947. The District Board of Directors sets water rates annually by each fiscal year end for the following fiscal year (July 1 to June 30).

The mission of the District is to provide a safe and reliable supply of high quality water to the communities we serve. In accomplishing this mission, the District shall provide adequate information and education on water issues to the public, be instrumental in guarding the integrity, safety and security of the West Coast Basin, and maintain close cooperation with the other agencies served.

The District's customers consist of 9 agencies, private and public, within its boundaries. The District's supplier of imported water is the Metropolitan Water District of Southern California.

**Basis of accounting** - The District utilizes accounting principles appropriate for an enterprise fund to record its activities. Accordingly, revenues and expenses are recognized on an accrual basis of accounting. The District's books and records include the general fund, investment in utility plant fund, bond interest, reserve fund, and a Financing Corporation. These funds have been combined in the accompanying statements of net assets, statement of revenues, expenses and changes in net assets and cash flows.

Operating income reported in proprietary fund financial statements include revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as nonoperating in the financial statements.

The District has not elected to apply the option in Paragraph 7 of GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Activities" and as a consequence will continue to apply GASB statements and interpretations.

**Estimates** - The financial statements are prepared in conformity with accounting principles generally accepted in the United States of America and, accordingly, include amounts that are based on management's best estimates and judgments.



**WEST BASIN MUNICIPAL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**(1) Summary of significant accounting policies (Continued)**

**Inventory** - Inventory consists primarily of chemicals, materials, and spare parts used at the treatment plant and are valued at the lower of cost or market using the first-in, first-out (FIFO) method.

**Investments** - Investments are stated at their fair value which represents the quoted or stated market value. Investments that are not traded on a market, such as investments in external pools, are valued based on the stated fair value as represented by the external pool.

**Capital assets** - Capital assets are classified into two major criteria of the business:

- **General Administration**
- **Infrastructure and Other Construction Projects**

Capital assets used to support General Administration must meet (2) conditions:

1. Each individual item has a cost of \$3,000 or more or a group of same type assets has a cost of \$5,000 or more
2. Useful life of at least three years

Capital assets used to support Infrastructure and Other Construction Projects must meet (2) conditions:

1. Each individual item or component unit has a cost of \$10,000 or more
2. Useful life of at least three years

All purchased or constructed capital assets are reported at historical cost. Contributed assets are reported at fair market value on the date received. Replacements, repairs or refurbishments and other capital outlays that significantly extend the useful life of an asset by at least three years and the cost of the individual project is \$10,000 or more are capitalized. Other costs incurred for repairs and maintenance is expensed as incurred. Depreciation is calculated on the straight-line method over the following estimated useful lives:

	<u><b>Useful Life</b></u>
Water facilities	3 - 75 year
Buildings and improvements	3 - 40 year
Furniture, fixtures and equipment	3 - 10 year

Depreciation aggregated \$15,745,914 for the year ended June 30, 2010.

**Amortization** - Bond issuance costs, bond discounts, bond premiums and the deferred amount on refunding are being amortized on the straight line method over periods not to exceed debt maturities. Amortization expense aggregated \$1,331,622 for the year ended June 30, 2010.

**WEST BASIN MUNICIPAL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**(1) Summary of significant accounting policies (Continued)**

**Classification of liabilities** - Certain liabilities which are currently payable have been classified as restricted because they will be funded from restricted assets.

**Capital contributions** - Capital contributions for the fiscal year ended June 30, 2010 are as follows:

Recovery Charges-Recycling Operations	\$ 7,171,369
Recovery Charges-Other	575,471
Contributed Facilities-U.S. Army Corps of Engineers	<u>7,571,808</u>
Total	<u>\$ 15,318,648</u>

**Recycling operations** -The District receives fixed payments from major recycled water customers, which are intended to cover the cost of recycled water facilities that were exclusively constructed for them. The fixed payments will continue through 2025, as the existing contracts expire.

**Army corps of engineers** - 75% of the construction costs related to the Harbor - South Bay Water Recycling Project are being paid by the U.S. Army Corps of Engineers.

**Risk management** - The District is a member of the Association of California Water Agencies Joint Powers Insurance Authority (“Insurance Authority”). The Insurance Authority is a risk-pooling self-insurance authority, created under provisions of California Government Code Sections 6500 et. seq. The purpose of the Insurance Authority is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage.

At June 30, 2010 the District participated in the self-insurance programs of the Insurance Authority as follows:

**Property loss** - The Insurance Authority has pooled self-insurance up to \$50,000 per occurrence and has purchased excess insurance coverage up to \$100,000,000 (total insurable value of \$194,746,874). The District has a \$25,000 deductible for buildings, personal property and fixed equipment and a \$1,000 deductible on mobile equipment.

**General liability** - The Insurance Authority has pooled self-insurance up to \$1,000,000 per occurrence and has purchased excess insurance coverage up to \$61,000,000.

**Auto liability** - The Insurance Authority has pooled self-insurance up to \$1,000,000 per occurrence and has purchased excess insurance coverage up to \$61,000,000.

**Public officials’ liability** - The Insurance Authority has pooled self-insurance up to \$1,000,000 and has purchased excess insurance coverage up to \$61,000,000.

**WEST BASIN MUNICIPAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

**(1) Summary of significant accounting policies (Continued)**

**Fidelity bond** - The Insurance Authority has pooled self-insurance up to \$100,000. The District has a \$1,000 deductible.

At June 30, 2010 the District also had insurance coverage with Alliant Insurance for crime up to \$3,000,000, with a \$100,000 deductible.

**Cash and cash equivalents** - For purposes of the statements of cash flows the District considers all investment instruments purchased with a maturity of three months or less to be cash equivalents.

**Prior year data** - Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the government's prior year financial statements, from which this selected financial data was derived. The District has reclassified certain prior year information to conform with current year presentations.

**WEST BASIN MUNICIPAL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**(2) Cash and investments**

Cash and investments held by the District were comprised of the following at June 30, 2010:

	<u>Maturity in Year</u>			<u>Total</u>
	<u>1 Year or Less</u>	<u>1 - 5 Years</u>	<u>More than 5 Years</u>	
Local agency investment fund	\$22,701,026	\$ -	\$ -	\$22,701,026
Money market mutual funds	6,176,140	-	-	6,176,140
Deposits with financial institutions	6,257,596	-	-	6,257,596
Investments:				
United States agency securities	5,047,770	18,148,860	-	23,196,630
United States treasury securities	902,817	4,041,880	-	4,944,697
Guaranteed investment contracts	-	-	13,614,100	13,614,100
<b>Total cash and investments</b>	<b><u>\$41,085,349</u></b>	<b><u>\$22,190,740</u></b>	<b><u>\$13,614,100</u></b>	<b><u>\$76,890,189</u></b>

Financial Statement Classification:

Current assets:

Cash and cash equivalents	\$34,238,807
Investments	28,141,327

Restricted assets:

Cash and cash equivalents	18,150
Investments	13,614,100
Custodial cash	<u>877,805</u>

**Total Cash and Investments** \$76,890,189

The statement of cash flows has been prepared by considering the following deposits and investment instruments to be cash and cash equivalents:

Local agency investment fund	\$22,701,026
Money market mutual funds	6,176,140
Deposits with financial institutions	<u>6,257,596</u>
<b>Total cash and cash equivalents</b>	<b><u>\$35,134,762</u></b>

**Investments authorized by the California government code and the districts investment policy**

- The table below identifies the investment types that are authorized for the District by the California Government Code. The table also identifies certain provisions of the California Government Code 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 District, rather than the general provision of the California Government Code or the District's investment policy:

**WEST BASIN MUNICIPAL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**(2) Cash and investments (Continued)**

<u>Authorized Investment Type</u> <u>Issuer</u>	<u>Maximum</u> <u>Maturity</u>	<u>Maximum</u> <u>Percentage</u> <u>of Portfolio</u>	<u>Maximum</u> <u>Investment</u> <u>in One</u>
U.S. treasury obligations	5 year	None	None
U.S. agency securities	5 year	None	None
Bankers acceptances	180 days	40%	30%
Commercial paper	270 days	25%	10%
Certificates of deposit	5 year	30%	None
Repurchase agreements	1 year	None	None
Reverse repurchase agreements	92 days	20% of base value	None
Medium-term notes	5 year	30%	None
Mutual funds	N/A	20%	10%
Money market mutual funds	N/A	20%	10%
Mortgage pass-through securities	5 year	20%	None
LAIF	N/A	None	None

The District's investment policy is more restrictive than the California Government Code. The policy restricts the District from investing in repurchase agreements, reverse repurchase agreements, medium term notes, mortgage pass-through securities, mutual funds, and open ended money market mutual funds. In addition, banker's acceptances are only allowed a maximum of 15% of the portfolio and 15% as the maximum investment in one issuer. Certificates of deposit are only allowed a maximum maturity of one year in the portfolio.

**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 District's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustees. The table also identifies certain provisions of these debt agreements that address interest rate risk, and concentration of credit risk.

<u>Authorized Investment Type</u> <u>Issuer:</u>	<u>Maximum</u> <u>Maximum</u> <u>Maturity</u>	<u>Maximum</u> <u>Percentage</u> <u>Allowed</u>	<u>Investment</u> <u>in One</u>
U.S. treasury obligations	None	None	None
U.S. agency securities	None	None	None
Bankers acceptances	180 days	None	None
Commercial paper	270 days	None	None
Money market mutual funds	N/A	None	None
Guaranteed investment contracts	30 year	None	None

**WEST BASIN MUNICIPAL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**(2) Cash and investments (Continued)**

**Disclosures relating to interest rate risk** - Interest rate risk is the risk that 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. In accordance with its' Investment Policy, the District 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 over time as necessary to provide the cash flows and liquidity needed for operations.

Information about the sensitivity of the fair values of the District's investments (including investments held by bond trustee) to market interest rate fluctuations is provided in the previous table that shows the distribution of the District's investments by maturity as of June 30, 2010.

The District is invested in a pay-fixed, receive-variable interest rate swap agreement with a negative fair value of \$9.9 million as of June 30, 2010. The terms of this interest rate swap agreement are described in note nine to the financial statements. This instrument is not rated. Other applicable risks (credit risk, interest rate risk, interest rate risk, basis risk, termination risk, roll-over risk, etc.) associated with this interest rate swap agreement are also described in note nine to the financial statements.

**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. In accordance with its' Investment Policy, the District only purchases investments that are rated "A" or higher by a nationally recognized statistical rating organization. Presented below is the actual rating as of the year end for each investment type.

<u>Investment</u>	<u>Rating as of Year End Standard &amp; Poor's</u>
U.S. agency securities	AAA
U.S. treasury securities	n/a
LAIF	Not Rated
Money market mutual funds	AAA
Held by bond trustee:	
Money market mutual funds	AAA
Guaranteed investment contracts	Not Rated

**Concentration of credit risk** - Concentration of credit is the risk of loss attributed to the magnitude of the District's investment in a single issue.



**WEST BASIN MUNICIPAL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**(2) Cash and investments (Continued)**

Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District investments are as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
Federal national mortgage association	U.S. agency securities	<u>\$13,129,590</u>
		<u>\$13,129,590</u>

Cash and investments in the amount of \$12,086,499 and \$1,527,601 (including amounts held by bond trustee) are held in the form of a nonnegotiable guaranteed investment contract issued by FSA Capital Management Services that mature on August 1, 2030 and August 1, 2027, respectively.

**Custodial credit risk** - Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the District 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 counter-party (e.g., broker) the District will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District'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% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

**Investment in state investment pool** - The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District'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.

**WEST BASIN MUNICIPAL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**(3) Restricted assets**

Restricted assets were provided by, and are to be used for, the following at June 30, 2010:

<u>Funding source</u>	<u>Use</u>	
Certificates of Participation and interest earned	Reserve Fund	\$13,957,234
Retrofit Loans receivable	Connect customers to recycled water distribution pipeline	486,657
Custodial receipts	Custodial costs	<u>877,805</u>
		<u>\$15,321,696</u>

The retrofit loans receivable are costs advanced by the District to connect recycled water customers to the distribution pipeline. Written agreements with the customers provide for the District to be reimbursed for these costs with interest at a rate of 6% or 7% per annum.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as necessary.

**WEST BASIN MUNICIPAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

**(4) Capital assets**

The investment in capital assets consists of the following at June 30, 2010:

	<u>Balance at July 1, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30,</u>
<b>2010</b>				
Capital assets, not being depreciated:				
Land - Recycling facilities	\$ 23,541,078	-	-	\$ 23,541,078
Land – Carson	1,670,568	-	-	1,670,568
Discharge Capacity -				
County sanitation districts	335,000	-	-	335,000
Construction-in-progress*	<u>29,361,612</u>	<u>22,530,602</u>	<u>(12,496,923)</u>	<u>39,395,291</u>
Total capital assets, not being depreciated	<u>54,908,258</u>	<u>22,530,602</u>	<u>(12,496,923)</u>	<u>64,941,937</u>
Capital assets, being depreciated:				
Building – Carson	2,343,573	-	-	2,343,573
Building improvement	-	21,364	-	21,364
Recycling facilities	450,405,312	13,366,454	(1,246,412)	462,525,354
Groundwater desalting facility	3,699,545	94,017	-	3,793,562
Machinery and equipment	751,738	1,366,880	-	2,118,618
Furniture and fixtures	<u>272,751</u>	<u>99,614</u>	<u>-</u>	<u>372,365</u>
Total capital assets, being depreciated	<u>457,472,919</u>	<u>14,948,329</u>	<u>(1,246,412)</u>	<u>471,174,836</u>
Less accumulated depreciation:				
Building – Carson	(179,674)	(93,743)	-	(273,417)
Building improvement	-	(1,930)	-	(1,930)
Recycling facilities	(105,082,014)	(15,326,538)	324,681	(120,083,871)
Groundwater desalting facility	(1,220,839)	(171,855)	-	(1,392,694)
Machinery and equipment	(540,011)	(113,830)	-	(653,841)
Furniture and fixtures	<u>(200,799)</u>	<u>(38,018)</u>	<u>-</u>	<u>(238,817)</u>
Total accumulated depreciation	<u>(107,223,337)</u>	<u>(15,745,914)</u>	<u>324,681</u>	<u>(122,644,570)</u>
Total capital assets, being depreciated, net	<u>350,249,582</u>	<u>(797,585)</u>	<u>(921,731)</u>	<u>348,530,266</u>
Total capital assets, net*	<u>\$405,157,840</u>	<u>21,733,013</u>	<u>(13,418,654)</u>	<u>\$413,472,203</u>

\* balance at July 1, 2009 restated, see note 10

**WEST BASIN MUNICIPAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

**(5) Long-term liabilities**

The following amounts of debt were outstanding June 30, 2010:

	<u>Balance at July 1, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2010</u>	<u>Current Portion</u>
2003 Refunding Revenue					
Certificate of Participation	\$128,225,000	-	(6,395,000)	121,830,000	6,585,000
2008 Adjustable Rate					
Refunding Revenue					
Certificate of Participation	37,740,000	-	(1,810,000)	35,930,000	1,895,000
2008 Refunding Revenue					
Certificate of Participation	127,435,000	-	(800,000)	126,635,000	1,665,000
2010 Adjustable Rate					
Revenue Certificates					
of Participation	-	10,000,000	-	10,000,000	-
State of California Loan					
Payable	<u>2,035,757</u>	<u>-</u>	<u>(292,730)</u>	<u>1,743,027</u>	<u>302,683</u>
Subtotal	<u>295,435,757</u>	<u>10,000,000</u>	<u>(9,297,730)</u>	<u>296,138,027</u>	<u>10,447,683</u>
Unamortized Discount and					
Premium	4,487,883	-	(207,584)	4,280,299	
Deferred Amount on					
Refunding	<u>(13,228,998)</u>	<u>-</u>	<u>1,401,000</u>	<u>(11,827,998)</u>	
Total	<u>\$286,694,642</u>	<u>10,000,000</u>	<u>(8,104,314)</u>	<u>288,590,328</u>	

**2003 refunding revenue certificates of participation** - In October 2003, the Financing Corporation issued \$156,085,000 Refunding Revenue Certificates of Participation ("2003 Refunding Revenue Certificates") to assist the District in financing and refinancing certain facilities within the District's recycled water system, to fund a deposit to the reserve fund, to fund capitalized interest, and to pay costs of delivery of the 2003 Refunding Revenue Certificates.

The 2003 Refunding Revenue Certificates have interest rates from 2.0% to 5.25% with maturities through August 2030. The amount of bonds outstanding at June 30, 2010 totaled \$121,830,000.

**2008 adjustable rate refunding revenue certificates of participation** - In May 2008, the Financing Corporation issued \$39,465,000 Adjustable Rate Refunding Revenue Certificates of Participation ("2008 Adjustable Rate Refunding Revenue Certificates") to assist the District in refinancing certain facilities of the District previously financed and refinanced from the proceeds of the 2004 and 2007 Adjustable Rate Refunding Revenue Certificates, to fund a reserve fund, and to pay costs of delivery of the 2008 Adjustable Rate Refunding Revenue Certificates.

**WEST BASIN MUNICIPAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

**(5) Long-term liabilities (Continued)**

The 2008 Adjustable Rate Revenue Certificates have interest rates that are remarketed on a weekly basis (.28% at June 30, 2010). The amount of bonds outstanding at June 30, 2010 totaled \$35,930,000.

**2008 refunding revenue certificates of participation** - In May 2008, the Financing Corporation issued \$128,665,000 Refunding Revenue Certificates of Participation ("2008 Refunding Revenue Certificates") to assist the District in financing and refinancing certain facilities of the District previously financed and refinanced from the proceeds of the 2003 Adjustable Rate Revenue Certificates, to purchase a reserve fund financial guaranty insurance policy for deposit in the Reserve Fund, and to pay costs of delivery of the 2008 Refunding Revenue Certificates.

The 2008 Refunding Revenue Certificates have interest rates ranging from 3.0% to 5.0% with maturities through August 2031. The amount of bonds outstanding at June 30, 2010 totaled \$126,635,000.

**2010 adjustable rate revenue certificates of participation** - In June 2010, U.S. Bank National Association agreed to extend credit to the District on a revolving basis through the purchase of West Basin Municipal Water District Adjustable Rate Revenue Certificates of Participation, Series 2010 (the "*Certificates*"), evidencing undivided interests in Installment Payments to be paid by the District under an Installment Purchase Agreement dated June 1, 2010 (the "*Installment Purchase Agreement*"), by and between the District and the Financing Corporation, prior to the commitment termination date (no later than June 14, 2013). The interest paid on the Certificates is an adjusted LIBOR-based interest rate. The amount of certificates outstanding at June 30, 2010 totaled \$10,000,000.

**State of California loan payable** - On February 1, 1995 the District entered into a loan contract with the State of California Water Resources Control Board under the Water Reclamation Loan Program for the construction of a pipeline through the District to Torrance, California to deliver reclaimed water to the Mobil Oil refinery. The District may borrow up to \$5,000,000 or the eligible costs of the construction project, whichever is less. As of June 30, 2010 the State of California had disbursed \$5,000,000 to the District under the loan contract.

The loan has an interest rate of 3.40% with maturities through 2015. At June 30, 2010 the balance of the loan payable totaled \$1,743,027.

**Debt Coverage** - The District has pledged revenues, net of specified operating expenses, as security for debt service associated with indebtedness incurred to finance various capital facilities of the District. The bonds are payable solely from net revenues and are payable through 2032. The total principal and interest remaining to be paid on District indebtedness is \$452,570,258, as indicated in the table below. For the year ended June 30, 2010, debt coverage (net revenues divided by senior debt service) for senior debt was approximately 1.82. Debt coverage (net revenues divided by total debt service) for all debt was approximately 1.25.

**WEST BASIN MUNICIPAL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**(5) Long-term liabilities (Continued)**

Debt service requirements of the Certificates of Participation (not including the 2010A Certificates) and the State Loan subsequent to June 30, 2010 are as follows:

	<u>Certificates of Participation</u>			<u>State of California Loan Payable</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Hedging Derivatives, Net</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 10,145,000	13,133,231	1,144,803	302,683	59,263	23,661,490
2012	10,760,000	12,884,351	1,082,595	312,974	48,972	23,912,537
2013	12,070,000	12,565,711	1,012,229	323,615	38,331	24,737,135
2014	12,785,000	11,844,405	945,746	334,618	27,328	24,870,473
2015	13,360,000	11,322,369	873,630	345,995	15,951	24,820,899
2016	14,000,000	10,752,067	800,859	123,142	1,411	24,593,729
2017	10,725,000	10,004,898	720,785	-	-	20,641,711
2018	10,000,000	9,585,591	642,181	-	-	19,461,527
2019	10,425,000	9,196,318	559,055	-	-	19,444,990
2020	10,890,000	8,663,269	473,414	-	-	19,451,462
2021	11,350,000	8,270,317	382,018	-	-	19,427,501
2022	11,835,000	7,720,967	289,532	-	-	19,390,061
2023	12,560,000	7,191,448	238,825	-	-	19,551,890
2024	13,455,000	6,580,424	195,674	-	-	19,813,679
2025	14,085,000	5,926,086	150,547	-	-	19,772,080
2026	14,775,000	5,240,409	104,758	-	-	19,758,016
2027	15,520,000	4,524,747	56,254	-	-	19,763,265
2028	16,195,000	3,759,592	8,035	-	-	19,664,572
2029	15,520,000	2,968,775	-	-	-	18,225,488
2030	16,295,000	2,197,000	-	-	-	18,207,225
2031	17,110,000	1,382,250	-	-	-	18,075,057
2032	<u>10,535,000</u>	<u>526,750</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,798,375</u>
	<u>\$284,395,000</u>	<u>166,240,975</u>	<u>9,680,940</u>	<u>1,743,027</u>	<u>191,256</u>	<u>448,043,162</u>



**WEST BASIN MUNICIPAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

**(6) Defined benefit pension plan**

**PERS:**

The District contributes to the California Public Employees Retirement System (PERS), a cost sharing multiple-employer public employee defined benefit pension plan. PERS provides retirement, disability benefits, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. PERS issues a publicly available financial report that includes financial statements and required supplementary information for the cost sharing plans that are administered by PERS. Copies of PERS' annual financial report may be obtained from its executive office at 400 "P" Street, Sacramento, California 95814.

**Contributions** - Participants are required to contribute 8% of their annual covered salary. The District is required to contribute at an actuarially determined rate. The rate for the year ended June 30, 2010 is 12.472% percent of annual covered payroll. The contribution requirements of plan members and the District are established and may be amended by the Board of Directors in conjunction with applicable labor contracts. The District's contributions to the plan for the years ending June 30, 2008, 2009, and 2010 were \$648,457, \$769,042, and \$690,472, respectively, and were equal to the required contributions for each year.

**WEST BASIN MUNICIPAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

**(6) Defined benefit pension plan (Continued)**

**PARS:**

On July 1, 2002, West Basin Municipal Water District and the Central Basin Municipal Water established a shared Public Agency Retirement System (PARS) Retirement Enhancement Plan for their Board of Directors. Subsequently on June 30, 2006, West Basin Municipal Water District attained its own separate PARS retirement plan (Plan), and a portion of the assets from the 2002 shared plan were allocated to the Plan. The Plan is a defined benefit, single-employer retirement plan, and is administered for the District through a third party administrator, PARS. The Plan provides for a pension retirement benefit to full time Directors who retire from the District after July 1, 2002, who are at least age 50 with 5 or more years of continuous service, and who have not been a CalPERS member prior to January 1, 2003. The Plan also provides for a supplemental retirement benefit to full time Directors who retire from the District after July 1, 2002, who have assumed office on or after January 1, 1995, who are at least age 55 with 12 or more years of continuous service, and who are not eligible for another District retiree benefit. PARS issues a publicly available financial report that includes financial statements and required supplementary information for the cost sharing plans that are administered by PARS. Copies of PARS' annual financial report may be obtained from its executive office at 4350 Von Karman Ave. Suite 100, Newport Beach, California 92660.

The pension benefit formula is the 3% at 60. For retirement at age 50, the benefit is 2.0% of final pay multiplied by years of service. For each year older a participant is at retirement, the multiplier increases by 0.1% until it reaches 3.0% for retirement at ages 60 and older. This benefit is increased by a 2% annual Cost of Living Adjustment (COLA) after retirement. The Supplemental benefit is a \$5,000 annual benefit, which is increased by the all-urban CPI (U.S. city average). The District contributes to each benefit on behalf of the eligible directors.

The District's funding policy is to make the contribution as determined by the Plan's actuary, expressed as a percentage of total Director's payroll. The last actuarial report was with an effective date on June 30, 2008 and covered the periods June 30, 2009 and June 30, 2010. The following information describes the calculation methodology:

- The Plan's annual required contribution (ARC) for the fiscal year ending June 30, 2010 is based on valuation as of June 30, 2008. The annual pension cost (APC) for this period equals the plan's annual required contribution, adjusted for historical differences between the annual required contribution and amounts contributed. The actuary has determined the District's annual required contribution as the sum of (a) normal cost, and (b) amortization of the unfunded actuarial accrued liability. For the fiscal year ending June 30, 2010, the District's annual required contribution is \$89,000, or 58.4% of the projected total Director payroll.

**WEST BASIN MUNICIPAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

**(6) Defined benefit pension plan (Continued)**

- For previous years, the Plan's annual required contribution was based on the June 30, 2006 actuarial valuation, which determined that the District's ARC was 67.7% of total Director payroll. The District confirmed they contributed 67.7% of payroll for 2006/07 and 2007/08. Therefore the full ARC was contributed each year, resulting in no Net Pension Obligation (NPO).
- The actuarial liabilities and assets are valued as of the valuation date. The actuarial funding method used is the entry age normal method. Under this method the contribution rate is the sum of the normal cost rate plus the unfunded actuarial liability rate. The normal cost is defined as the actuarial present value of benefits allocated to the valuation year and the actuarial accrued liability is the present value of benefits allocated to all periods prior to the valuation year. The normal cost rate is determined by dividing the normal cost by expected covered payroll. In determining the Plan's actuarial accrued liability, the projected benefit of each participant must be allocated between past years and future years.

The unfunded actuarial accrued liability (UAAL) is the difference between the actuarial accrued liability and Plan assets. This difference is amortized as a level percent of payroll to determine the unfunded actuarial liability rate. The closed periods over which the UAAL is amortized starts with the valuation date beginning after occurrence, and varies depending upon the source of the UAAL:

- the plan's June 30, 2006 UAAL is amortized over 16 years from 2006,
- gains and losses are amortized over 15 years,
- plan changes, assumption and method changes are amortized over 20 years

Valuation assets are smoothed using a method that recognizes one-fifth of the difference between expected actuarial value and market value each year.

As of June 30, 2008, the most recent actuarial valuation date, the plan was 82.7% funded. The actuarial accrued liability for benefits was \$579,000, and the actuarial value of assets was \$479,000, resulting in an unfunded actuarial accrued liability (UAAL) of \$100,000. Covered payroll was approximately \$152,000.

The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**WEST BASIN MUNICIPAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

**(6) Defined benefit pension plan (Continued)**

*Schedule of Funding Progress (amounts in \$000's)*

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liabilities (b)</u>	<u>Unfunded (Excess) Assets (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Annual Covered Payroll (c)</u>	<u>Ratio of Unfunded Liability to Annual Covered Payroll (b-a)/c</u>
6/30/06	\$ 241	\$ 433	\$ 192	55.7%	\$ 127	151.2%
6/30/08	479	579	100	82.7%	152	65.8%

*Schedule of Employer Contribution*

<u>Fiscal Year Ending June 30</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
2008	\$ 91,000	100%	\$ 0
2009	89,000	100%	0
2010	89,000	100%	0

A summary of the actuarial assumptions and methods used to calculate the Annual Required Contribution (ARC) for the current year follows:

Actuarial Cost Method:	Entry Age Normal cost method
Asset Valuation Method:	Smoothed market value
Discount rate:	6.0%, a decrease from the 6.5% assumed previously
Mortality:	Post-retirement mortality rates are from the CalPERS' 1997-2002 Experience Study
Termination:	None assumed
Salary Scale:	Individual payroll increases are the lesser of 5% and inflation. Aggregate payroll increases 3.25% a year.
Retirement Age:	Employees will immediately retire upon the later of eligibility for benefits (which is usually the expiration of the third term on the Board), or end of the current term on the Board.

**WEST BASIN MUNICIPAL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**(7) Other postemployment benefits (OPEB)**

*Plan Description:* The West Basin Municipal Water District provides postretirement medical benefits to employees who retire directly from the District under CalPERS under a single-employer defined benefit post-employment benefits plan. To be eligible for District-paid healthcare benefits, retirees must be at least age 55 with 10 years of District service at retirement, or meet the eligibility requirement of age 50 and the Rule of 75 (age plus CalPERS service equals 75, with a minimum of 5 years District service). For eligible retirees, the District pays the full medical and dental premiums, plus a reimbursement for out-of-pocket medical, dental, and vision expenses up to the active employees' reimbursement caps. Benefit provisions are established and amended by the Board of Directors.

*District's Funding Policy:* The District adopted GASB 45 in its fiscal year 2007/08. Each year, the District makes discretionary contributions to the California Employer's Retirement Benefit Trust (CERBT) administered by CalPERS in accordance with the amounts determined to be paid by the District's Board of Directors.

The District uses CERBT to hold irrevocable employer contributions in a trust restricted for benefits under this program. Separate financial statements are published by CERBT to conform to GASB Statement No. 43. Copies of CERBT annual financial report can be obtained from its executive office at 400 "Q" Street, Sacramento, California 95811.

*Annual OPEB Cost and Net OPEB Obligation.* The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement No. 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 (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the current fiscal year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation for these benefits:

Annual required contribution	\$ 295,941
Interest on net OPEB obligation	-
Adjustment to annual required contribution	<u>-</u>
Annual OPEB cost (expense)	295,941
Contributions made (including premiums paid)	<u>(352,135)</u>
Increase (decrease) in net OPEB obligation	(56,196)
Net OPEB obligation (asset) - beginning of year	<u>(597,154)</u>
Net OPEB obligation (asset) - end of year	<u><u>\$ (653,350)</u></u>

**WEST BASIN MUNICIPAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

**(7) Other postemployment benefits (Continued)**

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for during fiscal year 2010 and the two preceding years were as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
6/30/10	\$295,941	119%	\$(653,350)
6/30/09	286,000	293%	(597,154)
6/30/08	286,000	15%	241,702

The District paid \$1,080,000 to CERBT in Fiscal Year 2008/09, which resulted in a Net OPEB Asset for that year and the current year.

*Actuarial Methods and Assumptions.* Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. 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, presented as required supplementary information, 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 the benefits.

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 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 assets, consistent with the long-term perspective of the calculations.

The actuarial cost method used for determining the benefit obligations is the Entry Age Normal Method. The actuarial assumptions included a 7.75 percent investment rate of return, which is the assumed rate of the expected long-term investment returns on plan assets calculated based on the funded level of the plan at the valuation date, and annual cost trend rate of 8.5 percent for HMO and 9 percent for PPO initially, reduced by decrements of 0.5 percent per year to an ultimate rate of 5 percent after the eighth year. All the rates included a 3 percent inflation assumption. The UAAL is being amortized over 30 years using a level-of-projected payroll basis on a closed basis. It is assumed the District's payroll will increase 3.25% per year.



**WEST BASIN MUNICIPAL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**(7) Other postemployment benefits (Continued)**

**SCHEDULE OF FUNDING PROGRESS**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)/c)
7/1/07	\$ -	2,012,000	2,012,000	0%	2,915,179	69.02%
7/1/09	1,084,341	\$2,456,093	1,371,752	44%	3,285,222	41.76%

**(8) Commitments and contingencies**

The District has entered into various contracts for the purchase of material, construction of the utility plant, professional and nonprofessional services. Certain amounts are based on the contractor's estimated cost to complete. At June 30, 2010 the total unpaid amount on these contracts is approximately \$23,000,000. These commitments may be funded from restricted assets.

**(9) Swap transaction agreements**

The District entered into a swap transaction in the original notional amount of \$22,875,000, subject to the master agreement executed and confirmed on June 8, 2004, amended as of May 22, 2008, and further amended and restated as of June 6, 2008. The agreement is scheduled to terminate August 1, 2027 unless terminated earlier. Under the amended and restated swap transaction, the District pays a fixed rate of 3.662% and receives 65% of the British Bankers Association - London Interbank offered rate (BBA - LIBOR). The purpose of the swap transaction is to hedge the variable rate interest exposure relating to the District's Refunding Revenue Certificates of Participation Series 2008A-1. A termination of the swap transaction may also result in the District's making or receiving a termination payment based on market interest rates at the time of the termination. As of June 30, 2010, the District has an unrealized and unrecorded loss of approximately \$2,768,703 related to the swap transaction based on the market interest rates in effect at June 30, 2010.

**WEST BASIN MUNICIPAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

**(9) Swap transaction agreements (Continued)**

The District entered into a swap transaction in the notional amount of \$18,175,000, subject to the master agreement executed on June 7, 2004 and the transaction was confirmed on April 26, 2005. The agreement was effective July 31, 2007, but amended and restated on May 22, 2008 and is scheduled to terminate August 1, 2021, unless terminated earlier. Under the amended and restated swap transaction, the District pays a fixed rate of 3.515% and receives the floating rate of 65% of BBA - LIBOR. The purpose of the swap is to hedge the variable rate interest exposure relating the District's Refunding Revenue Certificates of Participation Series 2008A-2. A termination of the swap transaction may also result in the District's making or receiving a termination payment based on market interest rates at the time of the termination. As of June 30, 2010, the District has an unrealized and unrecorded loss of approximately \$1,727,606 related to the swap transaction based on the market interest rates in effect at June 30, 2010.

As a settlement of litigation regarding previous swap transactions under a master agreement dated October 2, 2001 and confirmations dated October 2, 2001 and February 26, 2003, the District entered into a swap transaction with RFPC Capital Services, LLC (RFPC) in the notional amount of \$220,575,000, subject to the master agreement executed on March 26, 2007, together with a schedule and confirmation of that same date. The agreement is effective March 26, 2007, but was amended and restated on May 29, 2008; and is scheduled to terminate August 1, 2030, unless terminated earlier. A swap payment assurance agreement dated March 26, 2007 was executed in conjunction with the swap transaction, but was amended and restated on May 29, 2008 between the District and Rice Derivative Holdings, LP (Rice Holdings). Under the swap transaction and swap payment assurance agreement, annually on August 1 the District in effect pays the quotient of the floating rate of the Securities Industry and Financial Market Association (SIFMA) Municipal Swap Index divided by 0.604 and receives the sum of BBA - LIBOR and .992. The terms of the swap payment assurance agreement made between the District and Rice Holdings indicate that in the event that District is to receive a net periodic payment from RFPC under the swap transaction, the District will receive half of the payment, and Rice Holdings will receive half of the payment. In the event the District is to owe a net periodic payment to RFPC under the swap transaction, Rice Holdings will pay to the District the full amount that is owed.

The District's rights under the agreement are secured by a collateral account funded by periodic payments from Rice Holdings (periodic installments to fund the termination payment) as well as net payments owed by RFPC to both Rice Holdings and the District under the swap transaction ("swap savings") and deposited into the collateral account.

In the event that funds in the collateral account are insufficient to satisfy Rice Holding's obligations under the swap payment assurance agreement, the District's recovery under the swap payment assurance agreement would be subject to the general financial resources of Rice Holdings.

**WEST BASIN MUNICIPAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

**(9) Swap transaction agreements (Continued)**

In September 2009, there was a novation in the swap counterparty from Rice Holdings to Bank of New York.

A termination of the swap transaction may result in the District paying a termination payment based on market rates at the time of the termination. As of June 30, 2010, the District's fair negative value of this swap transaction based on the market interest rates in effect at June 30, 2010 was \$9,949,570.

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2010, classified by type, and the changes in fair value of such derivative instruments for the year then ended are as follows (amounts in thousands):

	<u>Changes in Fair Value</u>		<u>Fair Value at June 30, 2010</u>		<u>Notional</u>
	<u>Classification</u>	<u>Amount</u>	<u>Classification</u>	<u>Amount</u>	
<b>Business-type activities</b>					
Cash flow hedges:					
Pay-fixed interest rate swap	Deferred outflow	\$ (665)	Debt	\$ (2,769)	\$19,425
Pay-fixed interest rate swap	Deferred outflow	\$ (370)	Debt	\$ (1,728)	\$16,125
Investment derivatives:					
Pay-fixed interest rate swap	Investment revenue	\$5,702	Investment	\$ (9,950)	\$220,575

The above transactions have been reflected in the accompanying financial statements in accordance with the requirements of GASB No. 53 which first became effective for the fiscal year ending June 30, 2010. The fair value of each of the above interest rate swap agreements has been reported as a liability in the accompanying statement of net assets. Swap agreements that have a strong correlation to the debt agreement of the District to which they relate and that meet the hedge accounting criteria of GASB No. 53 have been accounted for as cash flow hedges. Under hedge accounting, the changes in fair value associated with cash flow hedges are recorded on the statement of net assets as deferred outflows of financial resources (an asset). Swap agreements that do not conform to the hedge accounting criteria of GASB No. 53 are referred to as investment derivatives. The changes in fair value associated with investment derivatives are reported as a gain or loss in the statement of (cont.)

**WEST BASIN MUNICIPAL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**(9) Swap transaction agreements (Continued)**

revenues, expenses, and changes in net assets. Beginning net assets of the District has been restated to reflect the effect of the fair value of the District's investment derivatives on the net assets of the District as of June 30, 2010.

The fair values of the interest rate swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

**Objective and Terms of Hedging Derivative Instruments**

The following table displays the objective and terms of the District's hedging derivative instruments outstanding at June 30, 2010, along with the credit rating of the associated counterparty (amounts in thousands).

<u>Type</u>	<u>Objective</u>	<u>Notional Amount</u>	<u>Effective Date</u>	<u>Maturity Date</u>	<u>Terms</u>	<u>Counterparty Credit Rating*</u>
Pay-fixed interest rate swap	Hedge of the variable rate interest exposure relating to the Refunding Revenue Certificates of Participation Series 2008A-1.	\$19,425	5/22/08	8/01/27	Pay 3.662%; receives 65% of the BBA-LIBOR	A
Pay-fixed interest rate swap	Hedge of the variable rate interest exposure relating to the Refunding Revenue Certificates of Participation Series 2008A-2.	\$16,125	5/22/08	8/01/21	Pay 3.515%; receive floating rate of 65% of BBA-LIBOR	A

\* S&P rating of subordinated debt for Citibank, N.A.

*Credit risk.* The District is exposed to credit risk on hedging derivative instruments. To minimize its exposure to loss related to credit risk, it is the District's policy to require counterparty collateral posting provisions in its non-exchange-traded hedging derivative instruments. These terms require full collateralization of the fair value of hedging derivative instruments in asset positions (net of the effect of applicable netting arrangements) should the counterparty, or its guarantor, not have credit ratings from two nationally recognized rating agencies in at least the two highest rating categories. Collateral posted is to be in the form of cash, U.S. Treasury Securities or Agency Securities rated "Aaa" or "AAA" by two of the nationally recognized rating agencies held by a third-party custodian.

**WEST BASIN MUNICIPAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

**(9) Swap transaction agreements (Continued)**

*Interest rate risk.* The District is exposed to interest rate risk on its interest rate swaps. On its pay-fixed, receive-variable interest rate swaps, as LIBOR decreases, the District's net payment on the swap increases. In addition, on its basis interest rate swap, as LIBOR decreases or the SIFMA swap index increases, the District's net payment on the swap increases.

*Basis risk.* The District is exposed to basis risk on its interest rate swaps. For its pay-fixed and receive-variable interest rate swaps, the variable-rate payments received by the District on these hedging derivative instruments are based on 65 percent of one-month LIBOR index, reset every month, rather than the interest rates the District pays on its hedged variable-rate debt, which are remarketed every 7 days. As of June 30, 2010, the weighted-average interest rate on the District's hedged variable-rate debt was 0.28 percent, while 65 percent of LIBOR was approximately 0.23 percent.

In addition, on its basis interest rate swap, the District pays one-month LIBOR plus 0.992 percent reset monthly and receives SIFMA swap index divided by 0.604 reset weekly. As of June 30, 2010, one-month LIBOR plus 0.992 percent was approximately 1.34 percent, and SIFMA swap index divided by 0.604% was approximately 0.51 percent.

*Termination risk.* The District or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. In such event, the District may either receive or owe a payment to the counterparty. The amount and the direction of the payment is dependent on swap interest rates and ratios and is reflects the value of the swap at the time of such termination. As of June 30, 2010, the District would owe \$14,445,879 if its three swaps were terminated.

**(10) Prior Period Adjustments**

The beginning net assets were restated to reflect the following:

- For correction of the improper recording of an asset for construction in progress by the Army Corps of Engineers. The amount recorded in the prior year was not correctly reported by the Army Corps to the District.
- For recording the fair value at June 30, 2009 of the nonhedged interest rate swap agreement with Rice Financial Products Co. Capital Services, LLC.

**WEST BASIN MUNICIPAL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**(10) Prior Period Adjustments (Continued)**

The following summarizes the effects of the restatement to the beginning net assets as of July 1, 2009:

Net assets at beginning of year, as previously reported	\$202,580,824
To adjust construction in progress	<3,575,896>
To record fair value of nonhedged swap at end of prior year	< <u>15,651,177</u> >
Net assets at beginning of year, as restated	<u>\$183,353,751</u>



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**West Basin Municipal Water District  
California**

**STATISTICAL SECTION**

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

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**WEST BASIN MUNICIPAL WATER DISTRICT**

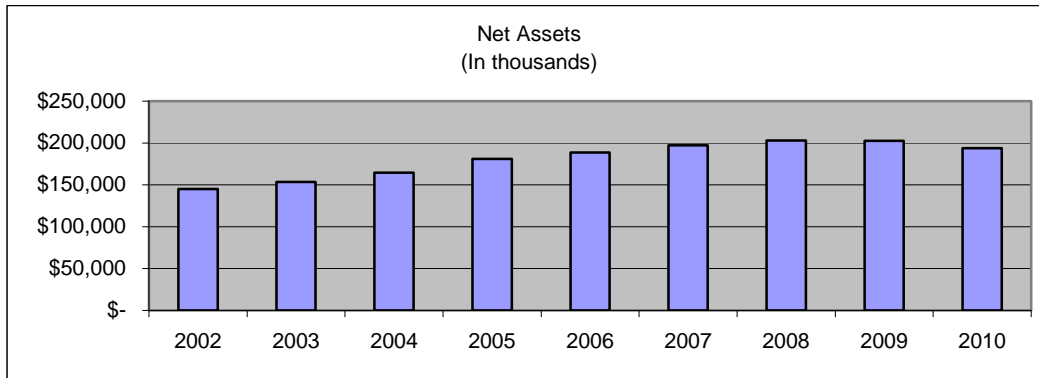
**Table 1  
NET ASSETS  
LAST NINE FISCAL YEARS  
(In Thousands)**

Fiscal Year Ended June 30,	Invested in Capital Assets Net of Related Debt	Unrestricted	Total Net Assets
2002	\$ 67,307	\$ 77,795	\$ 145,102
2003	74,599	78,679	153,278
2004	78,504	86,173	164,677
2005	84,855	96,216	181,071
2006	92,636	95,923	188,559
2007	108,085	89,200	197,285
2008	123,492	79,476	202,968
2009	135,653	66,928	202,581
2010	138,496	55,514	194,010

(1)

The District adopted Governmental Accounting Standards Board (GASB) Statement No. 34 in Fiscal Year 2001 - 2002. As information becomes available, additional years will be presented.

(1) Fiscal Year 2009 Net Assets were restated to reflect of the correction of construction in progress (\$3.6 million) and to record the fair value of nonhedged swap (\$15.7 million) in accordance with the GASB No. 53 requirements. See Footnote # 10.



Source: Finance Department

**WEST BASIN MUNICIPAL WATER DISTRICT**  
**Table 2**  
**CHANGES IN NET ASSETS**  
**LAST TEN FISCAL YEARS**  
(in Thousands)

Fiscal Year Ended June 30,	Operating Revenues	Operating Expenses	Operating Revenue (Loss)	Standby Charges	Interest Earnings	Grant Inc / Misc Inc(Exp)	Interest Expense	Change in fair value of swap	Total Nonoperating Revenue (Loss)	Income (Loss) Before Contributions	Capital Contributions	Change in Net Assets
	(1)	(2)					(5)	(6)	(3)		(4)	
								(nonhedged)				
2001	92,769	93,659	(890)	9,821	4,323	(576)	(9,650)		3,918	3,028	5,336	8,364
2002	95,438	98,182	(2,744)	9,496	3,732	(797)	(7,815)		4,616	1,872	7,334	9,206
2003	94,116	97,756	(3,640)	9,607	2,543	(486)	(7,770)		3,894	254	7,922	8,176
2004	94,924	97,751	(2,827)	9,724	433	(140)	(7,179)		2,838	11	11,388	11,399
2005	91,913	97,091	(5,178)	9,669	2,669	396	(10,195)		2,539	(2,639)	19,033	16,394
2006	95,486	104,191	(8,705)	9,785	2,230	(1,588)	(10,593)		(166)	(8,871)	16,359	7,488
2007	105,289	113,094	(7,805)	9,659	4,555	1,081	(9,101)		6,194	(1,611)	10,337	8,726
2008	106,072	115,260	(9,188)	9,365	3,581	207	(9,808)		3,345	(5,843)	11,526	5,683
2009	107,704	119,924	(12,220)	9,701	3,093	243	(13,848)		(811)	(13,032)	12,644	(388)
2010	130,623	138,786	(8,163)	9,679	1,426	(808)	(12,498)	5,702	3,501	(4,662)	15,319	10,657

(1) Breakdown is shown on Table 3 - "Operating Revenues by Source"

(2) Breakdown is shown on Table 4 - "Operating Expenses by Source"

(3) Non-Operating Revenue (Loss) represents standby charges, interest earnings, miscellaneous income (expense) and interest expense.

See Table 15 - "Standby Charge and Fixed Revenue Charge" for the nature of and ten year information on this revenue.

Also, the 2006 amount includes \$1.5million on loss from disposition of assets.

Due to the debt refinancing in FY 2008, the interest expense increased \$4 million in FY 2009 from FY 2008, also contributed to the Nonoperating Loss .

(4) Breakdown is shown on Table 5 - "Capital Contributions by Source" with explanations of nature of these contributions

(5) Due to the debt refinancing in FY 2008, the interest expense increased in FY 2009.

(6) Swap agreements that do not conform to the hedge accounting criteria of GASB No. 53 are referred to as investment derivatives. The changes in fair value associated with investment derivative are reported as a gain or loss in the statement of revenues, expenses and changes in net assets.

Source: Finance Department

**WEST BASIN MUNICIPAL WATER DISTRICT**

**Table 3  
OPERATING REVENUES BY SOURCE  
LAST TEN FISCAL YEARS  
(In Thousands)**

Fiscal Year Ended June 30,	Water Sales				Total
	Potable, Barrier & CC (1)	Recycled & LRP (2)	Desalting & GRP (3)	Conservation and Monitoring	
2001	79,029	12,912	538	290	92,769
2002	77,948	16,891	376	223	95,438
2003	76,099	17,351	472	194	94,116
2004	78,797	15,826	-	301	94,924
2005	76,021	15,528	-	364	91,913
2006	79,299	15,680	-	507	95,486
2007	84,978	19,627	65	619	105,289
2008	82,404	22,890	352	426	106,072
2009	82,569	23,599	566	970	107,704
2010	101,365 (4)	28,012 (5)	334	912	130,623

LRP = Local Resource Program. This is a rebate from Metropolitan Water District of Southern California of \$250 per acre-foot of recycled water sold.

GRP = Groundwater Recovery Program. This is a rebate from Metropolitan Water District of Southern California of \$250 per acre-foot of groundwater sold.

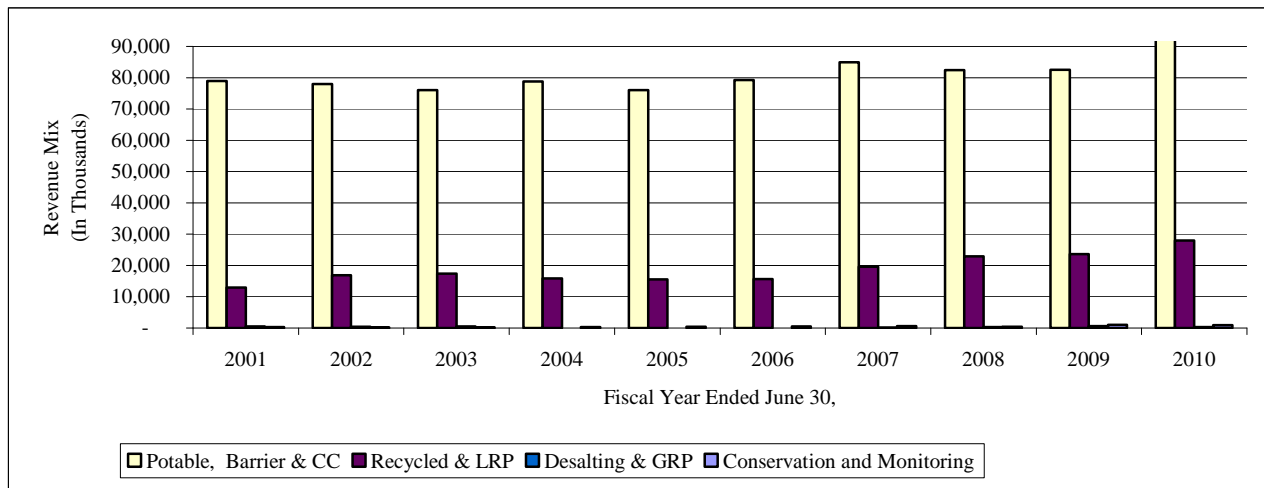
(1) Includes non-interruptible, seasonal storage, seawater barrier and Capacity Charge (CC).

(2) See explanation of the fluctuations in recycled water sales on Table 10 - "Recycled Water Sales in Acre-Feet".

(3) See explanation of fluctuations on Table 8 - "All Water Deliveries in Acre-Feet / Operating Indicators".

(4) In Fiscal Year 2010, non-interruptible and seawater barrier water rate increased 21% over the prior year. See explanation of fluctuations on Table 12 - "Imported Water Rates".

(5) In Fiscal Year 2010, recycled water rate increased from 10% to 42% over the prior year.



Source: Finance Department

**WEST BASIN MUNICIPAL WATER DISTRICT**  
**Table 4**  
**OPERATING EXPENSES BY SOURCE**  
**LAST TEN FISCAL YEARS**  
(in Thousands)

Fiscal Year Ended June 30,	Source of Supply	Water Recycling Costs	Desalting Operations	Communication and Monitoring	General and Administrative	Water Resource Planning	Depreciation and Amortization	Total Operating Expenses
	(1)	(2)						
2001	72,409	10,174	589	1,250	508	509	8,220	93,659
2002	71,797	14,534	311	1,590	319	718	8,913	98,182
2003	69,918	14,849	411	1,937	614	974	9,053	97,756
2004	70,944	14,193	167 (3)	2,095	797	1,355	8,200	97,751
2005	69,609	13,719	69 (3)	2,509	1,113	1,732	8,340	97,091
2006	73,089	14,899	72 (3)	2,487	3,350 (5)	1,985	8,309	104,191
2007	77,828	17,317	137 (3)	2,309	1,997 (5)	3,163 (6)	10,343	113,094
2008	75,470	20,709	440 (3)	3,123	- (5)	2,195 (6)	13,323	115,260
2009	76,153	21,528	481 (3)	4,476	- (5)	1,096 (6)	16,190	119,924
2010	92,276 (7)	23,477	551 (3)	4,360	- (5)	1,044 (6)	17,078	138,786

(1) Includes water purchases from Metropolitan Water District of Southern California, readiness-to-serve charge, and capacity charge.

(2) Represents district's costs to operate and maintain its recycling facilities

(3) See explanation of fluctuations on Table 8 - "All Water Deliveries in Acre-Feet/Operating Indicators".

(4) In fiscal year 2000, the District separated costs relating to Resource Planning that were previously included in G&A.

(5) Increases/decreases in general and administrative expenses were in accordance with budgeted amounts.

In 2006 and 2007, the increase in general and administrative expenses relate to significant legal expenses. In 2007, the District changed its allocation methodology and began allocating the costs for activities related to the Board of Directors.

(6) As a result of organizational restructuring, the project and labor costs assigned to Water Resource Planning in fiscal year 2007 relating to the District's conservation efforts were reassigned to Communication and Monitoring in fiscal year 2008 and 2009.

(7) In Fiscal Year 2010, Metropolitan Water District of Southern California's water rate increased 21% over the prior year. West Basin pass through MWD rate increases to its customers.

Source: Finance Department

**WEST BASIN MUNICIPAL WATER DISTRICT**  
**Table 5**  
**CAPITAL CONTRIBUTIONS BY SOURCE**  
**LAST TEN FISCAL YEARS**  
(In Thousands)

Fiscal Year Ended June 30,	Recycling Operations	U.S. Army Corps of Engineers	California Department of Water Resources	Other		Total
2001	5,336	-	-	-		5,336
2002	7,334	-	-	-		7,334
2003	7,891	-	-	31		7,922
2004	7,586	3,784	-	18		11,388
2005	7,625	3,538	7,860	10		19,033
2006	7,574	7,151	1,546	88		16,359
2007	7,426	1,160	-	1,751	(1)	10,337
2008	8,229	3,255	-	42		11,526
2009	7,140	1,068	409	452		9,069
2010	7,172	7,572	126	449		15,319

Recycling Operations - The District receives fixed payments from major recycled water customers, which are intended to cover the costs of recycled water facilities that were exclusively constructed for them. The fixed payments will continue to 2025, as the existing contracts expire.

The District received funding from the U.S. Department of Interior, Bureau of Reclamation.

U.S. Army Corps of Engineers - 75% of the construction costs related to the Harbor-South Bay Water Recycling Project are being paid by the U.S. Army Corps of Engineers.

California Department of Water Resources (DWR) - The District received a grant from the California Department of Water Resources to assist with the design and construction of the Sea Water Barrier Conservation and Sea Water Desalination projects.

(1) Southern California Edison provided a \$1.7M incentive to the District for the installation of solar panels

(2) A prior period adjustment for Fiscal Year 2009 was made in FY 2010 to reflect a correction to the Army Corp contribution for the amount of \$3.5 million, it is reflected as a restatement of Net Assets in 2010.

Source: Finance Department



**WEST BASIN MUNICIPAL WATER DISTRICT**  
**Table 6**  
**PAYORS - POTABLE WATER SALES**  
**FOR THE CURRENT YEAR AND NINE YEARS PRIOR**  
(In Thousands)

Table below shows potable water sales to principal customers of West Basin (excluding the Meter Charges, Capacity Charges and late penalties).

Name	2010	
	in US \$	%
California Water Service (CalWater)	48,890	49.2%
Golden State Water Company (GSWC) (1)	13,313	13.4%
Water Replenishment District (WRD)	10,722	10.8%
City of El Segundo	8,695	8.8%
Los Angeles County Water Works (LA County)	7,121	7.2%
City of Inglewood	5,353	5.4%
City of Manhattan Beach	2,702	2.7%
City of Lomita	1,872	1.9%
California American Water Company (CAWC)	677	0.7%
<b>Total</b>	<b>\$ 99,345</b>	<b>100.0%</b>

Name	2001	
	in US \$	%
California Water Service (CalWater)	31,642	40.4%
Southern California Water Company (SCWC) (1)	15,273	19.5%
Water Replenishment District (WRD)	10,062	12.8%
City of El Segundo	7,670	9.8%
Los Angeles County Water Works (LA County)	4,942	6.3%
City of Manhattan Beach	2,924	3.7%
City of Inglewood	3,405	4.3%
City of Lomita	1,439	1.8%
California American Water Company (CAWC)	1,055	1.3%
<b>Total</b>	<b>\$ 78,412</b>	<b>100.0%</b>

(1) In fiscal year 2006 Southern California Water Company changed their name to Golden State Water Company.

Source: Finance Department

**WEST BASIN MUNICIPAL WATER DISTRICT**  
**Table 7**  
**PAYORS - RECYCLED WATER SALES**  
**FOR THE CURRENT YEAR AND NINE YEARS PRIOR**  
(In Thousands)

Table below shows recycled water sales to principal customers of West Basin (excluding LRP rebate).

Name	2010	
	in US \$	%
City of El Segundo	7,169	35.3%
California Water Service (CalWater)	4,170	20.5%
City of Torrance	3,920	19.3%
Water Replenishment District (WRD)	3,906	19.2%
City of Inglewood	367	1.8%
L.A. Dept of Water & Power	362	1.8%
Golden State Water Company (GSWC) (1)	214	1.1%
City of Manhattan Beach	158	0.8%
Inglewood Unified School District	35	0.2%
Total	<b>\$ 20,301</b>	<b>100.0%</b>

Name	2001	
	in US \$	%
Water Replenishment District (WRD)	2,904	39.4%
City of Torrance	1,684	22.8%
California Water Service (CalWater)	1,584	21.5%
City of El Segundo	798	10.8%
City of Inglewood	163	2.2%
L.A. Dept of Water & Power	93	1.3%
City of Manhattan Beach	75	1.0%
Southern California Water Company (SCWC) (1)	65	0.9%
Inglewood Unified School District	7	0.1%
Total	<b>\$ 7,373</b>	<b>100.0%</b>

(1) In fiscal year 2006 Southern California Water Company changed their name to Golden State Water Company.

Source: Finance Department

**WEST BASIN MUNICIPAL WATER DISTRICT**  
**TABLE 8**  
**ALL WATER DELIVERIES IN ACRE-FEET/OPERATING INDICATORS**  
**LAST TEN FISCAL YEARS**

This table presents a summary of imported water purchases by the retail agencies from Metropolitan Water District of Southern California (MWD) through West Basin, desalted water delivered to California Water Service Company Dominguez by West Basin, recycled water delivered to the retail agencies by West Basin and groundwater pumped by retail agencies from the West Coast Basin for the last ten fiscal years.

Fiscal Year Ended June 30,	Potable Water					Total Potable Water	Recycled	Desalting		Total Water
	Non-Interruptible	Ground-water <sup>(4)</sup>	Saltwater Barrier <sup>(5)</sup>	Seasonal Water <sup>(1)</sup>						
2001	126,920	51,698	19,058	1,899		199,575	21,976	816	(2)	222,367
2002	120,195	51,436	18,124	6,220	(3)	195,975	27,387	571	(2)	223,933
2003	124,022	51,099	17,877	1,864		194,862	27,114	716	(2)	222,692
2004	132,181	48,461	17,737	-		198,379	24,553	-	(2)	222,932
2005	129,315	44,329	11,400	-		185,044	24,070	-	(2)	209,114
2006	129,260	36,792	13,722	745		180,519	23,653	-	(2)	204,172
2007	134,802	36,424	11,162	1,982		184,370	29,250	89	(2)	213,709
2008	127,925	38,785	7,609	-		174,319	32,209	467	(2)	206,995
2009	114,293	43,835	9,774	-		167,902	29,908	682	(2)	198,492
2010	108,261	44,405	13,054	-		165,720	30,680	285	(2)	196,685

- (1) Seasonal Water includes (a) Seasonal Storage Long-term; (b) Seasonal Shift; (c) Seasonal Shift Contract, as applicable.
- (2) Deliveries declined in fiscal years ended June 30, 2001 and 2002 due to well rehabilitation and delays in obtaining certain permits. In January 2003, the well was shut down as it required replacement. The District redesigned the project and completed construction in August 2005, however, the District didn't receive the permit to operate the desalter until May 2006. In fiscal year 2007 the desalter was operational for two months and then required additional repairs subsequent to year end. In fiscal year 2008 desalter sales increased over the prior year, however, the desalter experienced water quality issues. This resulted in less than anticipated sale during the fiscal year. In October 2008, desalter sales resumed resulting in higher sales in FY 2009. In FY 2010, the desalter sales decreased from prior year due to install a new brine discharge system.
- (3) During this period, MWD offered more seasonal water, thereby increasing deliveries on this type of water, but resulted in a corresponding decrease on non-interruptible water deliveries.
- (4) Groundwater does not represent water deliveries of West Basin. This information is included in the table above only for analysis. West Basin's deliveries of non-interruptible, saltwater barrier, and seasonal water are affected by the amount of groundwater pumped. Groundwater is purchased by the retail water agencies from the Water Replenishment District of Southern California.
- (5) Recycled water sales were lower due to poor source water issues. This resulted in a corresponding increase in potable water sold to the seawater barrier in FY 2009 and FY 2010.

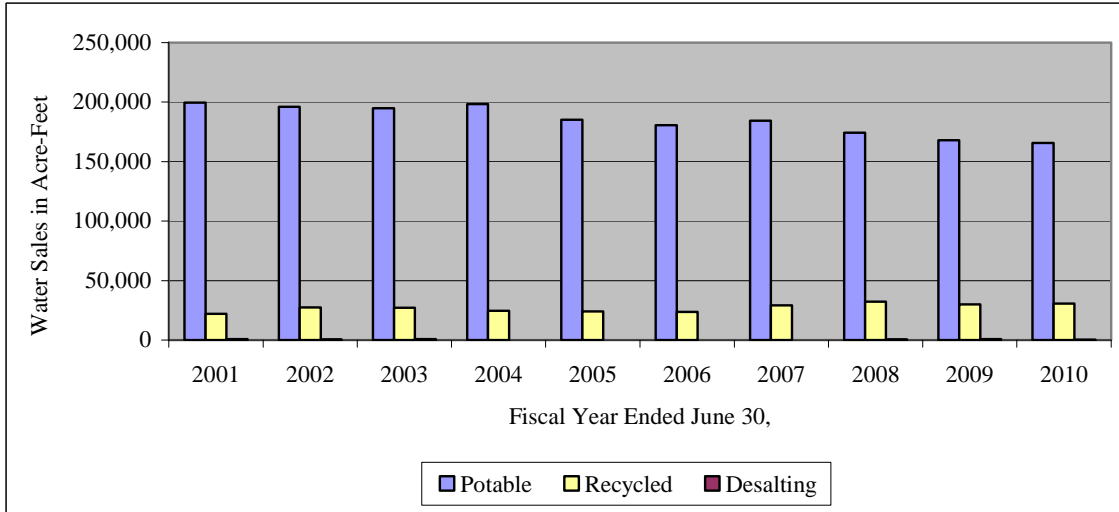
Additional operating indicators as it relates to capital assets and full-time personnel can be found on the schedule "General Operating Information"

Continued-see graphs on the next page.

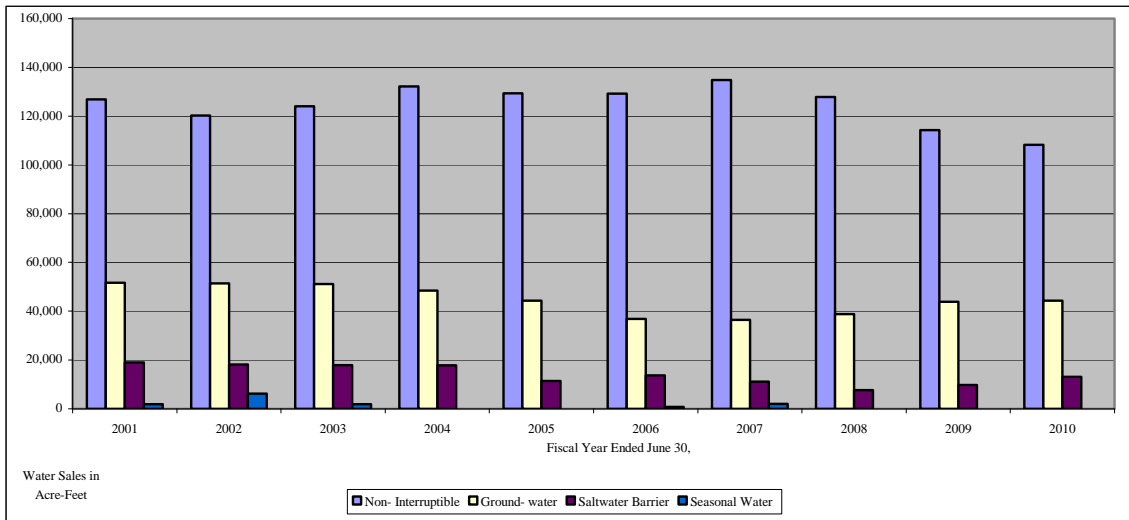
Source: Finance Department

**WEST BASIN MUNICIPAL WATER DISTRICT  
ALL WATER DELIVERIES IN ACRE-FEET  
LAST TEN FISCAL YEARS**

*(Continued)*



*POTABLE WATER DELIVERIES*



**WEST BASIN MUNICIPAL WATER DISTRICT**  
**Table 9**  
**ALL WATER SALES TO CUSTOMERS PER ACRE-FOOT**  
**LAST TEN FISCAL YEARS**

The following table presents a summary of all water sales by West Basin to each retail agency for the last ten fiscal years. Water sales include desalted, non-interruptible, recycled, seasonal storage, and seawater barrier.

	Name	2001	2002	2003
1	California American Water Company (CAWC)	1,999	1,898	1,892
2	California Water Service (CalWater)	63,634	68,708	68,741
3	City of El Segundo	18,068	16,963	16,645
4	City of Inglewood	7,071	6,285	7,312
5	City of Lomita	2,725	2,752	2,734
6	City of Manhattan Beach	5,809	5,889	6,003
7	City of Torrance	6,650	7,329	7,473
8	Golden State Water Company (GSWC)	29,162	27,111	25,800
9	Inglewood Unified School District	24	31	30
10	Los Angeles County Water Works (LA County)	9,359	9,720	10,056
11	L.A. Dept of Water & Power	357	398	277
12	Water Replenishment District (WRD)	25,811	25,414	24,631
	Total	170,669	172,497	171,593

- (1) Decrease is due to replacement of the pressure reducing valves during FY 2005.
- (2) Water sales were lower due to lower recycled water sales because of the poor source water issues.
- (3) Overall sales decreased from fiscal year 2008 to fiscal year 2010 due to consistent conservation messaging to address drought and water allocation measures.

Source: Finance Department

(Continued)

**WEST BASIN MUNICIPAL WATER DISTRICT**  
**Table 9**  
**ALL WATER SALES TO CUSTOMERS PER ACRE-FOOT**  
**LAST TEN FISCAL YEARS**  
(Continued)

2004	2005		2006		2007		2008		2009		2010	
1,451	1,384		682		2,272		1,725		1,436		809	
72,395	70,014		69,999		74,498		73,917		68,164		65,422	
17,074	16,360		15,767		17,062		16,950		17,773		19,666	
7,549	6,884		7,816		8,882		8,339		7,817		7,173	
2,813	2,676		2,576		2,720		2,583		2,420		2,290	
5,972	5,893		6,419		6,037		5,566		5,073		3,565	
6,581	6,921		6,409		6,037		6,389		5,876		6,445	
28,024	29,377		29,689		28,270		22,935		18,280		16,634	
67	60		57		68		56		63		56	
10,478	9,748		9,533		10,836		10,654		9,886		8,750	
394	283		257		335		360		444		619	
21,672	15,185	(1)	18,174		20,266		18,738		17,426	(2)	20,851	
174,471	164,785		167,380		177,284		168,210	(3)	154,657	(3)	152,280	(3)

Source: Finance Department

**WEST BASIN MUNICIPAL WATER DISTRICT**  
**Table 10**  
**RECYCLED WATER SALES IN ACRE-FEET**  
**LAST TEN FISCAL YEARS**

Table below shows recycled water accounts and sales for the last ten fiscal years identified by four largest purchasers and Others.

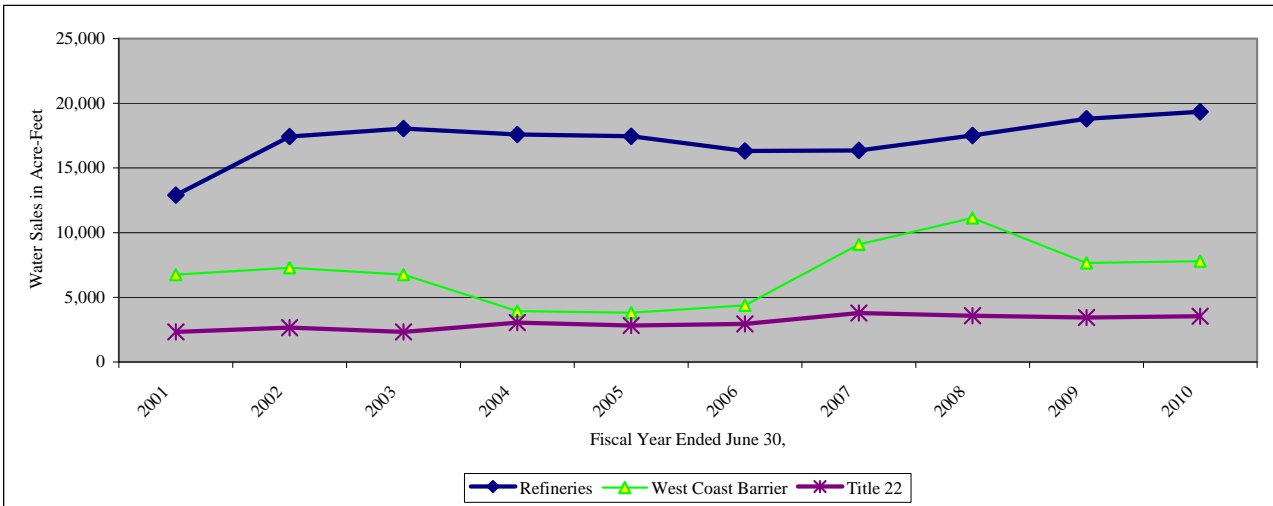
Fiscal Year Ended June 30,	Number of Accounts	Chevron Refinery <sup>(1)</sup>	Mobil Refinery <sup>(1)</sup>	Bp Amoco Refinery <sup>(1)</sup>	Total Refineries <sup>(3)</sup>	West Coast Barrier <sup>(2)</sup>	Title 22 Irrigation	Total
2001	176	3,130	6,515	3,249	12,894	6,753	2,329	21,976
2002	186	7,170	7,172	3,095	17,437	7,289	2,661	27,387
2003	201	7,728	7,301	3,009	18,038	6,754	2,322	27,114
2004	205	7,957	6,350	3,276	17,583	3,935	3,035	24,553
2005	207	7,563	6,708	3,183	17,454	3,799	2,817	24,070
2006	216	7,004	6,130	3,191	16,325	4,383	2,945	23,653
2007	221	7,661	5,742	2,951	16,354	9,104	3,792	29,250
2008	226	7,366	6,047	4,091	17,504	11,129	3,576	32,209
2009	326 <sup>(4)</sup>	8,478	5,578	4,759	18,815	7,652	3,441	29,908
2010	354	8,492	6,146	4,708	19,346	7,797	3,537	30,680

<sup>(1)</sup> Chevron refinery is located in the city of El Segundo, ExxonMobil refinery is located in Torrance, and bp Amoco is located in Carson (CalWater).

<sup>(2)</sup> Sales declined in fiscal years ended June 30, 2004 through 2006 due to barrier operating issues and poor source water quality. In October 2006, the District began injecting additional recycled water into the West Coast Barrier (up to 75%). Recycled water sales decreased in FY 2009 and 2010 due to poor source water quality.

<sup>(3)</sup> Recycled Water Sales include deliveries to refineries for nitrification, boiler feed, reverse osmosis industrial, and Reverse Osmosis Ultra.

<sup>(4)</sup> In February 2009, 100 new recycled water irrigation sites were connected.



Source: Finance Department



**WEST BASIN MUNICIPAL WATER DISTRICT**  
**Table 11**  
**AVERAGE WATER RATES PER ACRE-FOOT**  
**LAST TEN FISCAL YEARS**

Type of Water	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<i>Purchased from MWD</i>										
Non-interruptible	\$ 528	\$ 528	\$ 519	\$ 515	\$ 528	\$ 541	\$ 560	\$ 591	\$650	\$773
Saltwater Barrier	528	528	519	515	528	541	560	591	650	773
Seasonal Storage-LT	346	346	334	326	344	362	382	411	454	547
Seasonal Shift	385	396	401							
Seasonal Shift Contract	346	346								
<i>West Basin Treatment Plants</i>										
Recycled- T22	\$ 280	\$ 280	\$ 295	\$ 303	\$ 303	\$ 312	\$337	\$367	\$438	\$600
Recycled- T22 OSA	320	320	335	343	343	354	379	409	480	642
Recycled- Barrier	430	430	430	430	430	430	421	440	458	501
Recycled- RO Industrial	508	508	533	549	549	568	596	633	722	913
Recycled- RO Ultra		660	705	725	725	750	788	837	954	1195
Recycled- RO Nitrified			275	283	283	292	317	347	418	577
<i>West Basin Desalting Plant</i>										
Desalted Water	\$ 409	\$ 409	\$ 409	\$ 409	\$ 451	\$ 472	\$ 491	\$ 517	\$608	\$723

MWD - Metropolitan Water District of Southern California

LT - Long-term

T22 - Title 22

OSA - Outside Service Area

RO - Reverse Osmosis

**Notes:**

**Purchased from MWD**

Water rates are comprised of three components: MWD's commodity charge, West Basin's reliability service charge, and the Readiness-to-Serve (RTS) Charge. As MWD changes its rates effective January 1st, the rates presented above represent the average rates for the period covered.

In fiscal year ended June 30, 2003, West Basin implemented a new pricing structure for non-interruptible and saltwater barrier, which incorporates items listed below. This change was based on MWD's change in its rate structure.

- Two price tiers (only tier 1 rates are shown above.)
- Purchase agreements with purveyors for implementing tiered pricing;
- Baseline usage for determining when the higher priced second tier applies;
- Flow-based fixed charge to limit summertime peaking; and
- Uniform surcharge

**West Basin Treatment Plants**

Rates exclude MWD's Local Resources Program rebate of \$250 per acre-foot of recycled water sold.

For T22 water sales within and outside West Basin's service area, rate decreases as the volume of recycled water purchases increases. Rates shown above are for purchases of 0 - 25 AF per month and are adopted annually.

**West Basin Desalting Plant**

Rates exclude MWD's Groundwater Recovery Program rebate of \$250 per acre-foot of desalting water sold.

Source: Finance Department

**WEST BASIN MUNICIPAL WATER DISTRICT**  
**Table 12**  
**IMPORTED WATER RATES**  
**FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

Tables below delineate the fiscal years ended June 30, 2009 and 2010 water rates for West Basin and Metropolitan Water District of Southern California (MWD).

	MWD	Readiness-to-Serve Charge	West Basin Reliability Service Charge	Total
<b>Fiscal Year Ended June 30, 2009</b>				
<i>July 1, 2008 to December 31, 2008</i>				
Non-Interruptible & Barrier (Tier 1)	\$508	\$62	\$41	\$611
Non-Interruptible & Barrier (Tier 2)	606	62	41	709
Seasonal Storage Long-term	390	-	41	431
<i>January 1, 2009 to June 30, 2009</i>				
Non-Interruptible & Barrier (Tier 1)	\$579	\$69	\$41	\$689
Non-Interruptible & Barrier (Tier 2)	695	69	41	805
Seasonal Storage Long-term	436	-	41	477
<b>Fiscal Year Ended June 30, 2010</b>				
<i>July 1, 2009 to August 31, 2009</i>				
Non-Interruptible & Barrier (Tier 1)	\$579	\$69	\$51	\$699
Non-Interruptible & Barrier (Tier 2)	695	69	51	815
Seasonal Storage Long-term	436	-	51	487
<i>September 1, 2009 to December 31, 2009</i>				
Non-Interruptible & Barrier (Tier 1)	\$701	\$94	\$51	\$846
Non-Interruptible & Barrier (Tier 2)	781	94	51	926
Seasonal Storage Long-term	556	-	51	607
<i>January 1, 2010 to June 30, 2010</i>				
Non-Interruptible & Barrier (Tier 1)	\$701	\$94	\$51	\$846
Non-Interruptible & Barrier (Tier 2)	811	94	51	956
Seasonal Storage Long-term	556	-	51	607

**Notes:**

In FY 2010, MWD increased certain water rates and charges effective September 1st and increased its tier 2 rate January 1st. West Basin increased its readiness-to-service charge effective September 1st. West Basin's reliability service charge rates change effective July 1st of each year.

Source: Finance Department

**WEST BASIN MUNICIPAL WATER DISTRICT**  
**Table 13**  
**OUTSTANDING DEBT TO CAPITAL ASSETS**  
**LAST TEN FISCAL YEARS**  
(In Thousands)

Most of West Basin's capital assets were acquired and/or constructed through debt financing. Table below provides an overview of the ratio of the total capital assets to debt outstanding as of fiscal year-end. Total long-term debt includes certificate of participations and state loan.

Fiscal Year Ended June 30,	Certificate of Participation	State Loan	Total LT Debt	Capitalized Assets (1)	Construction-in-Progress (2)	Total Capital Assets	Debt/Total Capital Assets
2001	294,486	4,056	298,542	335,532	29,434	364,966	0.82
2002	285,591	3,832	289,423	365,100	4,921	370,021	0.78
2003	276,310	3,601	279,911	369,748	6,804	376,552	0.74
2004	339,225	3,361	342,586	376,422	12,424	388,846	0.88
2005	334,435	3,114	337,549	378,985	41,900	420,885	0.80
2006	326,340	2,857	329,197	381,143	73,251	454,394	0.72
2007	315,290	2,593	317,883	387,074	89,738	476,812	0.67
2008	302,600	2,319	304,919	477,099	20,126	497,225	0.61
2009	293,400	2,036	295,436	483,019	32,938	515,957	0.57
2010	294,395	1,743	296,138	496,722	39,395	536,117	0.55

(1) Amounts exclude accumulated depreciation; does not include capital assets of the Financing Authority. See details at "General Operating Information".

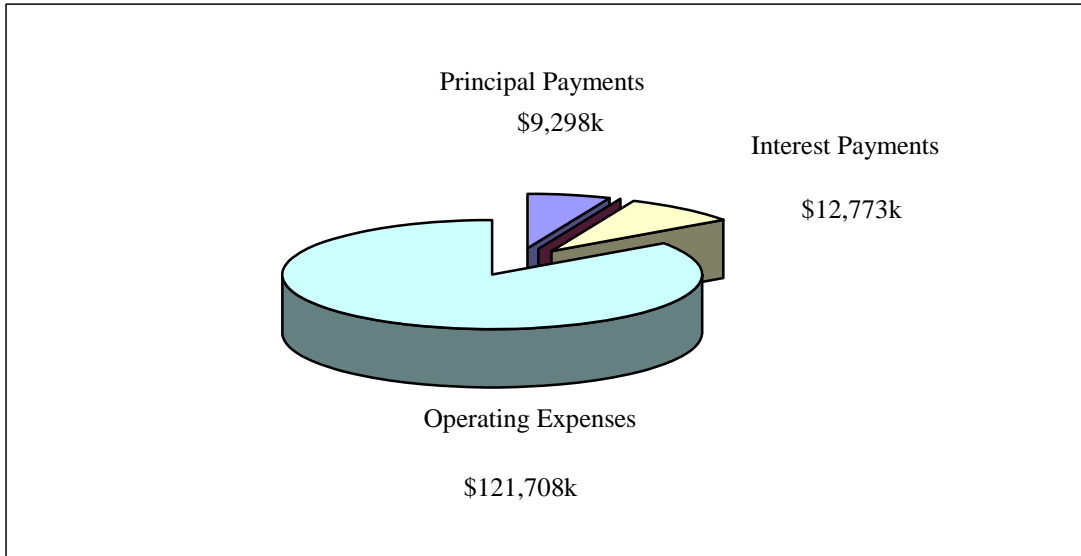
(2) Amounts include all of the District's Construction-in-Progress programs.

Source: Finance Department

**WEST BASIN MUNICIPAL WATER DISTRICT**  
**Table 14**  
**ANNUAL DEBT PAYMENTS TO EXPENSES**  
**LAST TEN FISCAL YEARS**  
(In Thousands)

Fiscal Year Ended June 30,	Principal Payments	Interest Payments	Total Debt Payment	Operating Expenses *	Ratio Debt/Exp.
2001	7,377	9,650	17,027	85,439	0.20
2002	9,119	7,815	16,934	89,269	0.19
2003	9,512	7,770	17,282	88,703	0.19
2004	9,925	7,179	17,104	89,551	0.19
2005	5,038	10,195	15,233	88,751	0.17
2006	8,351	10,593	18,944	95,882	0.20
2007	11,315	9,170	20,485	102,751	0.20
2008	11,839	9,374	21,213	101,937	0.21
2009	9,483	12,766	22,249	103,734	0.21
2010	9,298	12,773	22,071	121,708	0.18

\* Excludes depreciation and amortization.



Source: Finance Department

**WEST BASIN MUNICIPAL WATER DISTRICT**  
**Table 15**  
**STANDBY CHARGE AND FIXED REVENUE CHARGE**  
**LAST TEN FISCAL YEARS**  
(In Thousands)

Standby charges and fixed revenue charges are designed to pay for the debt incurred to finance the construction of recycled water facilities. For the past ten years, all of West Basin's bonds were issued to finance the recycled water program. Table below shows the information on these revenues as compared to debt service.

Fiscal Year Ended June 30,	Standby Charge (1)	Fixed Revenue Charge (2)	Total	Debt Payment (3)	% of Debt Service
2001	9,821	5,336	15,157	17,027	89%
2002	9,496	7,334	16,830	16,934	99%
2003	9,607	7,891	17,498	17,282	101%
2004	9,724	7,586	17,310	17,104	101%
2005	9,669	7,625	17,294	15,233	114%
2006	9,785	7,574	17,359	18,944	92%
2007	9,659	7,426	17,085	20,485	83%
2008	9,365	8,229	17,594	21,213	83%
2009	9,701	7,140	16,841	22,249	76%
2010	9,679	7,172	16,851	22,071	76%

(1) Approved annually by the Board, the Standby Charge is imposed by the District on land owners. The charge is collected by means of the property owner's tax bill through the County of Los Angeles. The Standby Charge was designed to help drought-proof the area through construction of recycled water distribution systems and treatment facilities.

(2) Fixed Revenue Charges are paid by BP Amoco, Chevron, Exxon Mobil Oil, and Los Angeles Department of Water and Power and are used to repay the cost of the treatment and distribution facilities that were constructed exclusively for delivery of recycled water to these entities. Amounts are based on contractual terms. Fixed Revenue Charges are reported as Capital Contributions in the basic financial statements, see table 5-"Capital Contribution By Source".

(3) In fiscal year 2006 the debt service increased due to the district paying both interest and principal for its subordinate bonds. In fiscal year 2007 the principal portion of the subordinate debt service increased by over \$2 million over the prior year. In fiscal year 2008 the District experienced higher interest rates on its variable rate debt. Breakdown is shown on table 14-"Annual Debt Service to Expenses".

Source: Finance Department

**WEST BASIN MUNICIPAL WATER DISTRICT**

**Table 16  
DEBT COVERAGE**

**LAST TEN FISCAL YEARS**

(In thousands, except debt coverage)

	2001	2002	2003	2004	2005
Changes in Net Assets (6)	\$ 8,364	\$ 9,206	\$ 8,176	\$ 11,399	\$ 16,394
Add: Interest Expense	9,650	7,815	7,770	7,179	10,195
Add: Depreciation/Amortization	8,220	8,913	9,053	8,200	8,340
Less: Non-cash items (1)	46	(384)	(577)	(1,898)	(3,125)
<b>Net Revenues for Coverage</b>	<b>\$ 26,280</b>	<b>\$ 25,550</b>	<b>\$ 24,422</b>	<b>\$ 24,880</b>	<b>\$ 31,804</b>
<b>Parity Debt Service (2)</b>					
1993 Bonds	9,498	9,501	9,505	3,168	-
1997A Bonds	1,947	1,949	1,948	1,946	1,946
1999A Bonds (3)	3,425	2,442	2,281	451	-
2003A Bonds	-	-	-	6,328	12,182
2004A Bonds	-	-	-	8	1,379
2007A Bonds	-	-	-	-	-
2008A Bonds	-	-	-	-	-
2010A Bonds	-	-	-	-	-
SWRCB Loan	362	362	362	362	362
Reserve Fund Earnings	(863)	(758)	(682)	(1,338)	(1,868)
<b>Total Net Senior Debt Service</b>	<b>\$ 14,369</b>	<b>\$ 13,496</b>	<b>\$ 13,414</b>	<b>\$ 10,925</b>	<b>\$ 14,001</b>
<b>Debt Coverage</b>	<b>1.83</b>	<b>1.89</b>	<b>1.82</b>	<b>2.28</b>	<b>2.27</b>
<b>Subordinate Debt Service (2)</b>					
1997 B and C Bonds (3)	\$ 4,000	\$ 2,829	\$ 2,661	\$ 500	\$ -
1998A Bonds	1,596	1,599	1,600	1,393	133
2003B Bonds (4)	-	-	-	713	3,148
2008B Bonds	-	-	-	-	-
Reserve Fund Earnings	(102)	(56)	(35)	(19)	(5)
<b>Total Net Subordinate Debt Service</b>	<b>\$ 5,494</b>	<b>\$ 4,372</b>	<b>\$ 4,226</b>	<b>\$ 2,587</b>	<b>\$ 3,276</b>
<b>Debt Coverage (5)</b>	<b>2.17</b>	<b>2.76</b>	<b>2.60</b>	<b>5.39</b>	<b>5.43</b>
<b>All-In Debt Coverage</b>	<b>1.32</b>	<b>1.43</b>	<b>1.38</b>	<b>1.84</b>	<b>1.84</b>
Cash Available for Additional Subordinate Debt Service, Capital Projects and Other Purposes	\$ 6,417	\$ 7,682	\$ 6,782	\$ 11,368	\$ 14,527

(Continued)

(1) Non-cash items represent grant funding from the U.S Army Corps of Engineer for the construction of the Harbor South Bay Water Recycling Project, unrealized gains/losses, change in fair value of swap instruments, loss on disposition of assets and nonroutine negotiated litigation settlements.

(2) Net of accrued and capitalized interest.

(3) These are variable rate debt. Interest rates decreased starting fiscal year 2002.

(4) Increase in 2006 debt service is the result of paying both principal and interest payments and in 2008 for the debt refunded.

(5) Subordinate debt in Fiscal Year 2006 coverage did not meet the 1.15 debt coverage required and can be explained by significant decrease in recycled water barrier sales due to poor water quality and county operational issues. In addition, the District had higher than anticipated legal costs of approximately \$1.8 million which also impacted debt coverage. The Board had previously set aside reserves to pay for certain legal costs.

The District has budgeted to exceed the required debt coverage in the following years.

(6) See Table 2 - "Changes in Net Assets" for more detail.

**WEST BASIN MUNICIPAL WATER DISTRICT**

**Table 16  
DEBT COVERAGE**

**LAST TEN FISCAL YEARS**

(In thousands, except debt coverage)  
(Continued)

	2006	2007	2008	2009	2010
Changes in Net Assets (6)	\$ 7,488	\$ 8,726	\$ 5,683	\$ (388)	\$ 10,657
Add: Interest Expense	10,593	9,101	9,808	13,848	12,498
Add: Depreciation/Amortization	8,309	10,343	13,323	16,190	17,078
Less: Non-cash items (1)	(4,671)	(2,517)	(4,021)	(5,022)	(11,579)
<b>Net Revenues for Coverage</b>	<b>\$ 21,719</b>	<b>\$ 25,653</b>	<b>\$ 24,793</b>	<b>24,628</b>	<b>28,654</b>
<b>Parity Debt Service (2)</b>					
1993 Bonds	-	-	-	-	-
1997A Bonds	1,949	1,946	162	-	-
1999A Bonds (3)	-	-	-	-	-
2003A Bonds	12,305	12,475	12,493	12,488	12,479
2004A Bonds	1,478	1,402	1,481	-	-
2007A Bonds	-	-	1,508	-	-
2008A Bonds	-	-	339	3,745	3,217
2010A Bonds	-	-	-	-	20
SWRCB Loan	362	362	362	362	362
Reserve Fund Earnings	(1,177)	(825)	(799)	(767)	(762)
<b>Total Net Senior Debt Service</b>	<b>\$ 14,917</b>	<b>\$ 15,360</b>	<b>\$ 15,546</b>	<b>15,828</b>	<b>15,316</b>
<b>Debt Coverage</b>	<b>1.46</b>	<b>1.67</b>	<b>1.60</b>	<b>1.51</b>	<b>1.82</b>
<b>Subordinate Debt Service (2)</b>					
1997 B and C Bonds (3)	\$ -	\$ -	\$ -	-	-
1998A Bonds	-	-	-	-	-
2003B Bonds (4)	7,246	8,445	5,043	-	-
2008B Bonds	-	-	1,114	6,897	7,624
Reserve Fund Earnings	(1)	(2)	(12)	(2)	-
<b>Total Net Subordinate Debt Service</b>	<b>\$ 7,245</b>	<b>\$ 8,443</b>	<b>\$ 6,145</b>	<b>6,895</b>	<b>7,624</b>
<b>Debt Coverage (5)</b>	<b>0.94</b>	<b>1.22</b>	<b>1.50</b>	<b>1.17</b>	<b>1.66</b>
<b>All-In Debt Coverage</b>	<b>0.98</b>	<b>1.08</b>	<b>1.15</b>	<b>1.08</b>	<b>1.25</b>
<b>Cash Available for Additional Subordinate Debt Service, Capital Projects and Other Purposes</b>	<b>\$ (443)</b>	<b>\$ 1,850</b>	<b>\$ 3,102</b>	<b>\$ 1,905</b>	<b>\$ 5,714</b>

(1) Non-cash items represent grant funding from the U.S Army Corps of Engineer for the construction of the Harbor South Bay Water Recycling Project, unrealized gains/losses, change in fair value of swap instruments, loss on disposition of assets and nonroutine negotiated litigation settlements.

(2) Net of accrued and capitalized interest.

(3) These are variable rate debt. Interest rates decreased starting fiscal year 2002.

(4) Increase in 2006 debt service is the result of paying both principal and interest payments and in 2008 for the debt refunded.

(5) Subordinate debt in Fiscal Year 2006 coverage did not meet the 1.15 debt coverage required and can be explained by significant decrease in recycled water barrier sales due to poor water quality and county operational issues. In addition, the District had higher than anticipated legal costs of approximately \$1.8 million which also impacted debt coverage. The Board had previously set aside reserves to pay for certain legal costs. The District has budgeted to exceed the required debt coverage in the following years.

(6) See Table 2 - "Changes in Net Assets" for more detail.



**WEST BASIN MUNICIPAL WATER DISTRICT**  
**Table 17**  
**TEN LARGEST EMPLOYERS WITHIN WEST BASIN SERVICE AREA**  
**CURRENT YEAR**

<b>Employer</b>	<b>Number of Employees</b>	<b>Rank</b>
Raytheon Company	8,386	1
Northrop Grumman Corporation	5,901	2
Boeing Satellite Systems Inc.	4,571	3
Aerospace Corporation	2,991	4
Sony Pictures Entertainment	2,020	5
Palos Verdes Peninsula Unified School District	1,970	6
Mattel, Inc.	1,625	7
DirecTV Operations Inc.	1,549	8
Interactive Corp. (aka Ticketmaster)	1,300	9
Chevron Products Company/USA Inc.	1,253	10

Source: Finance Department

**WEST BASIN MUNICIPAL WATER DISTRICT**  
**Table 18**  
**POPULATION AND ECONOMIC STATISTICS**  
**LAST TEN CALENDAR YEARS**

Calendar Year	West Basin Population (1)	LA County Population (2)	Personal Income (in thousands) (2)	Per Capita Personal Income (2)	Unemployment Rate (3)
2001	816,814	9,634,764	\$ 303,445,287	\$ 31,495	5.7%
2002	826,198	9,717,871	311,367,020	32,041	6.8%
2003	833,187	9,777,324	322,272,131	32,961	7.0%
2004	837,542	9,808,494	338,209,805	34,481	6.5%
2005	839,285	9,803,912	357,193,633	36,434	5.4%
2006	839,385	9,760,598	385,732,651	39,519	4.8%
2007	839,134	9,734,701	402,107,608	41,307	5.1%
2008	838,888	9,779,254	413,316,582	42,265	7.5%
2009	840,260	-	-	-	11.6%
2010	853,377	-	-	-	12.5%

(1) Data obtained from the Water Policy and Resource Development Department.

(2) Data obtained from the U.S. Department of Commerce, Bureau of Economic Analysis for Los Angeles County. Calendar year 2009 and 2010 not available.

(3) Data obtained from the State of California Employment Development Department for Los Angeles County. 2010 information is as of September.

**WEST BASIN MUNICIPAL WATER DISTRICT  
DEMOGRAPHICS**

*Service Area*

Estimated Total Population Served 853,377

Area 185 square miles

*Division I - Represented by Director Ronald C. (Ron) Smith*

Palos Verdes Estates, Rancho Palos Verdes, Rolling Hills Estates, Rolling Hills and Carson

*Division II - Represented by Director Gloria D. Gray*

Inglewood, South Ladera Heights, a portion of Lennox, Athens, Howard and Ross-Sexton

*Division III - Represented by Director Carol W. Kwan*

Hermosa Beach, Lomita, Manhattan Beach, Redondo Beach and a portion of Torrance

*Division IV - Represented by Director Edward C. Little*

Culver City, Del Aire, El Segundo, Malibu, North Ladera Heights, Topanga, View Park, West Hollywood, Windsor Hills and a portion of Lennox

*Division V - Represented by Director Donald L. Dear*

Gardena, Hawthorne, Lawndale and El Camino Village

*Number of direct Customers* 9

Certain customers may have only one service or multiple service type(s) and our represented by cities, water districts and school districts.

Service types are non-interruptible, seawater barrier and recycled water.

*Annual Water Deliveries (approximate)*

Non-Interruptible Water (including groundwater) 166,005 acre-feet

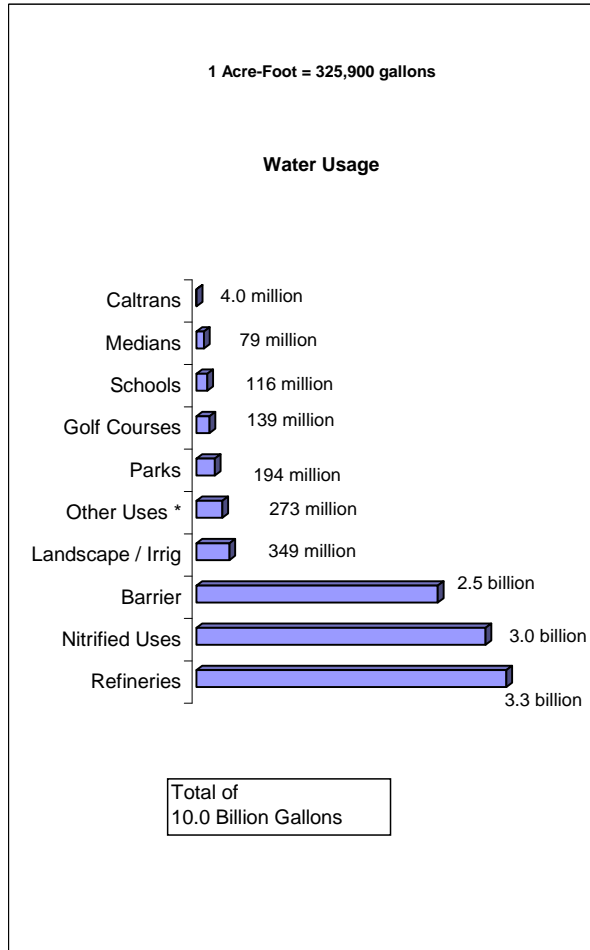
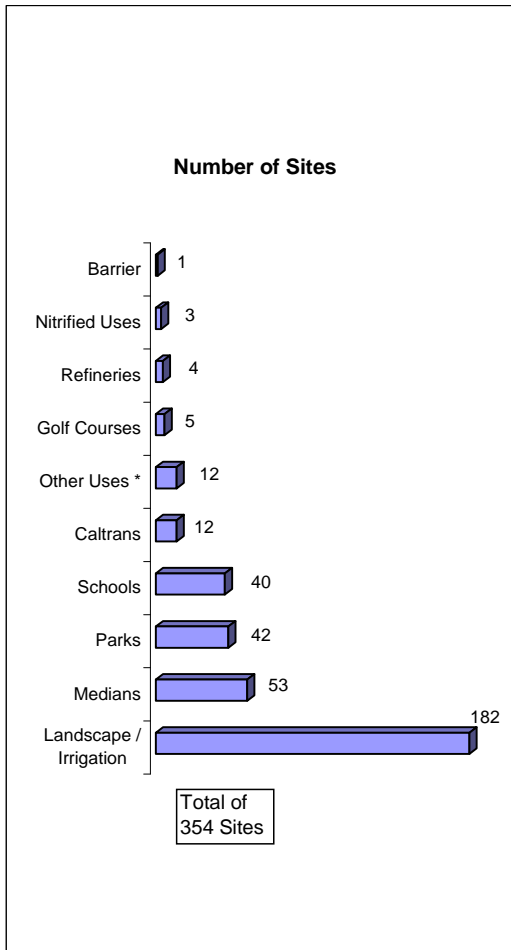
Recycled Water 30,680 acre-feet

Recycled water sales replace non-interruptible (potable) sales.

In addition, the Certificate of Participation obtained for its capital projects have a fixed revenue stream to support the repayment of the principal and interest. See Table 15 - "Standby Charge and Fixed Revenue Charge" schedule for comparison.

Source: Planning Department

**WEST BASIN MUNICIPAL WATER DISTRICT  
RECYCLED WATER USERS  
FISCAL YEAR ENDED June 30, 2010**



Other Uses \* { Cemetery (1) 145 million  
Multi-industrial / irrigation uses (1) 28 million  
Construction uses (1) 95 thousand  
Street Sweeping (1) 22 thousand  
College (4) 98 million  
Draining / Sump Pumps (3) 2.2 million

Source: Planning Department

**WEST BASIN MUNICIPAL WATER DISTRICT  
GENERAL OPERATING INFORMATION  
FISCAL YEAR ENDED JUNE 30, 2010**

*Number of Budgeted Full-Time Personnel*

Budgeted Full-Time Employees	
2001	31
2002	30
2003	28
2004	28
2005	30
2006	30
2007	33
2008	33
2009	33
2010	34

Prior to FY 2007, West Basin had shared staff with Central Basin Municipal Water District. Staff time was allocated each fiscal year between each entity based on the budgeted level of effort.

*Certifications and Licenses Held by District Employees*

Professional Engineer	7
Engineer in Training	1
Certified Public Accountant	3
Licensed attorneys	2
Masters Degree	10
State Water Certification	
Distribution Operator	2
Treatment Plant Operator	3

*Capital Assets (In Thousands)*

	Recycling Facilities	Desalting	Machinery & Equipment	Construction- in-Progress (2)	West Basin Capital Assets	Admin. Facility	Financing Authority	Total Fixed Assets (1)
2001	332,260	2,290	982	29,434	364,966	-	2,671	367,637
2002	361,827	2,290	983	4,921	370,021	-	2,719	372,740
2003	366,481	2,290	977	6,804	376,552	-	2,821	379,373
2004	373,280	2,290	852	12,424	388,846	-	2,591	391,437
2005	375,842	2,290	853	41,900	420,885	-	2,609	423,494
2006	376,702	3,544	897	73,251	454,394	-	2,082	456,476
2007	382,421	3,697	956	89,738	476,812	-	2,082	478,894
2008	468,377	3,697	1,011	20,126	493,211	4,014	(3) -	(3) 497,225
2009	474,281	3,700	1,025	32,938	511,943	4,014	-	515,957
2010	486,401	3,794	2,491	39,395	532,082	4,035	-	536,117

(1) Excludes accumulated depreciation

(2) In Fiscal Year 2010, the Construction in Progress includes approximately \$18,963,682 in recycling facilities and approximately \$20,431,609 in other capital projects.

(3) West Basin fully acquired ownership of its administrative facility in August 2008, previously a shared cost under the Financing Authority.

The District invested \$486M in recycling facilities as of June 30, 2010. Cumulative recycled water produced and sold by these facilities was 355,091 acre-feet from inception of operations up to June 30, 2010.

Source: Finance Department



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